2007 ANNUAL REPORT

A Decade of Building Value

inter pipeline

Our Vision

CONTENTS

To become one of Canada's leading energy infrastructure businesses, providing our customers with safe, reliable, market-responsive and cost-effective services.

We will maximize long-term value to our investors by capturing the full profit potential of our assets, prudently managing our capital resources and leveraging our core capabilities.

We will grow through the development and expansion of our oil transportation, NGL extraction and bulk liquid storage businesses, and through the creation of new lines of business involving energy infrastructure.

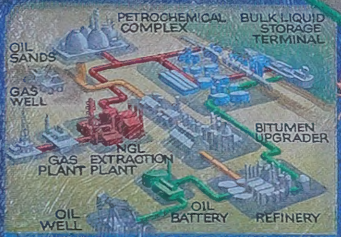
To be successful, we must achieve operations excellence in the areas of regulatory compliance, safety and environmental protection, asset integrity and cost effectiveness.

inter pipeline

10 1997/2007 A Decade o

Inter Pipeline Fund's petroleum transportation, processing and storage assets play an important role in connecting energy and petrochemical producers to markets.

As one of the largest energy infrastructure businesses in Canada Inter Pipeline has a strong track record of providing investors with increasing and reliable monthly cash distributions.



ENERGY VALUE CHAIN

Vision Statement

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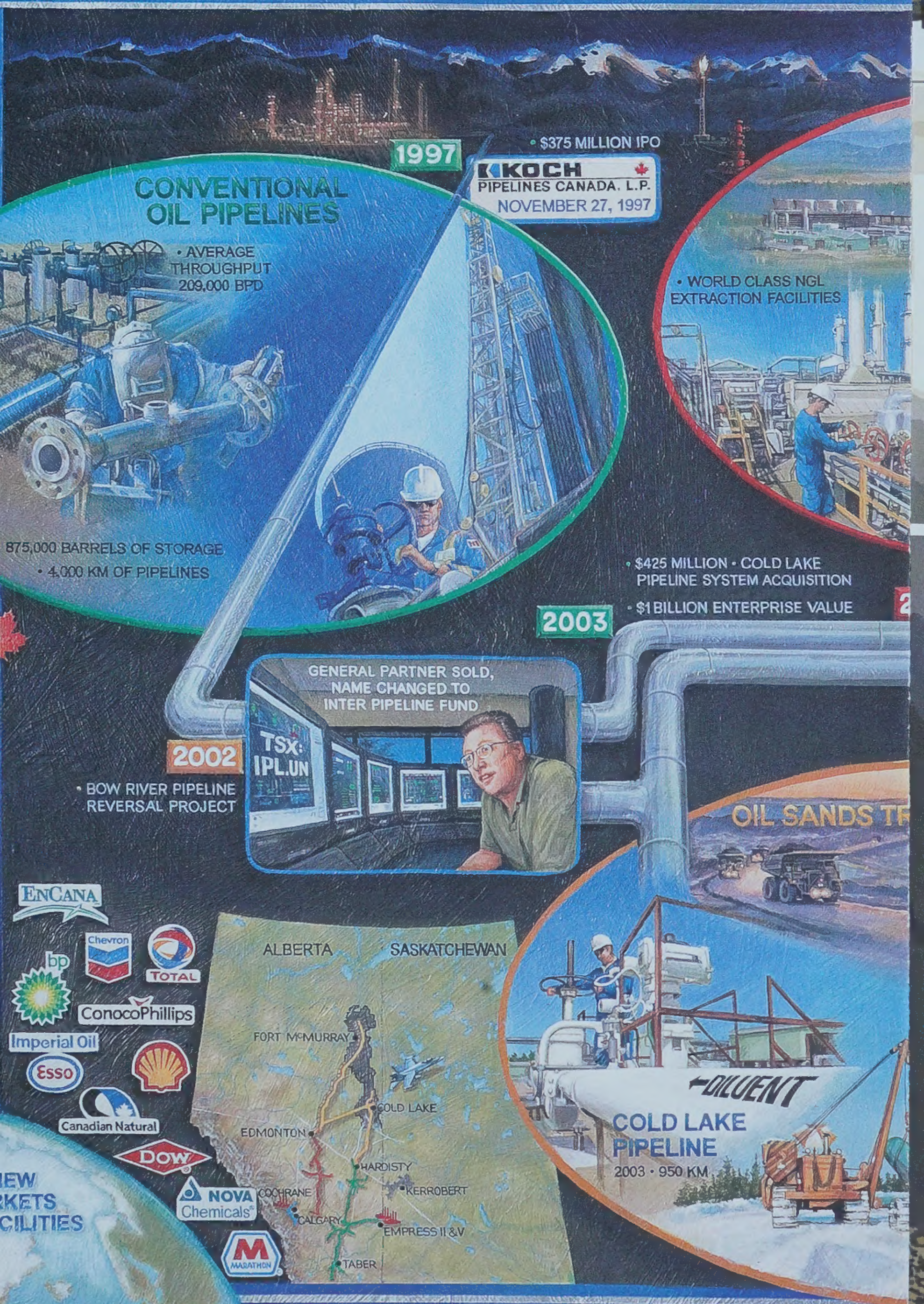


Canadian Business

PROFIT 100 CANADA'S FASTEST GROWING COMPANIES 2007 2006

500 2007 2006

Alberta Venture VENTURE 100 2007 2006 2005

Venture 100

Fast 50 Over 20 2007

REPORT ON BUSINESS TOP 1000

50 BIGGEST INCOME TRUSTS 2007

THE GLOBE AND MAIL 2006 2005

FP500 2006 2005 2004

FINANCIAL POST

Milestones Along Inter Pipeline's 10-Year Path of Growth

Since its formation in late 1997, Inter Pipeline has grown to become one of Canada's largest energy infrastructure businesses. We have expanded our operations through a combination of organic growth projects and strategic acquisitions. In doing so, we have created four strong and competitively positioned lines of business.

Our future cash flow is secured under long-term contracts with several of the world's largest petroleum producers, integrated energy companies and petrochemical producers. And the results have been powerful: steady growth in revenues, cash flow, distributions and total returns to Inter Pipeline's investors.

1997

- $375 million initial public offering of Class A limited partnership units
- Began trading on the Toronto Stock Exchange

1998

- Conventional oil-throughput volumes exceed 310,000 barrels per day
- 20,000 barrels per day capacity expansion on the Bow River pipeline system

1999

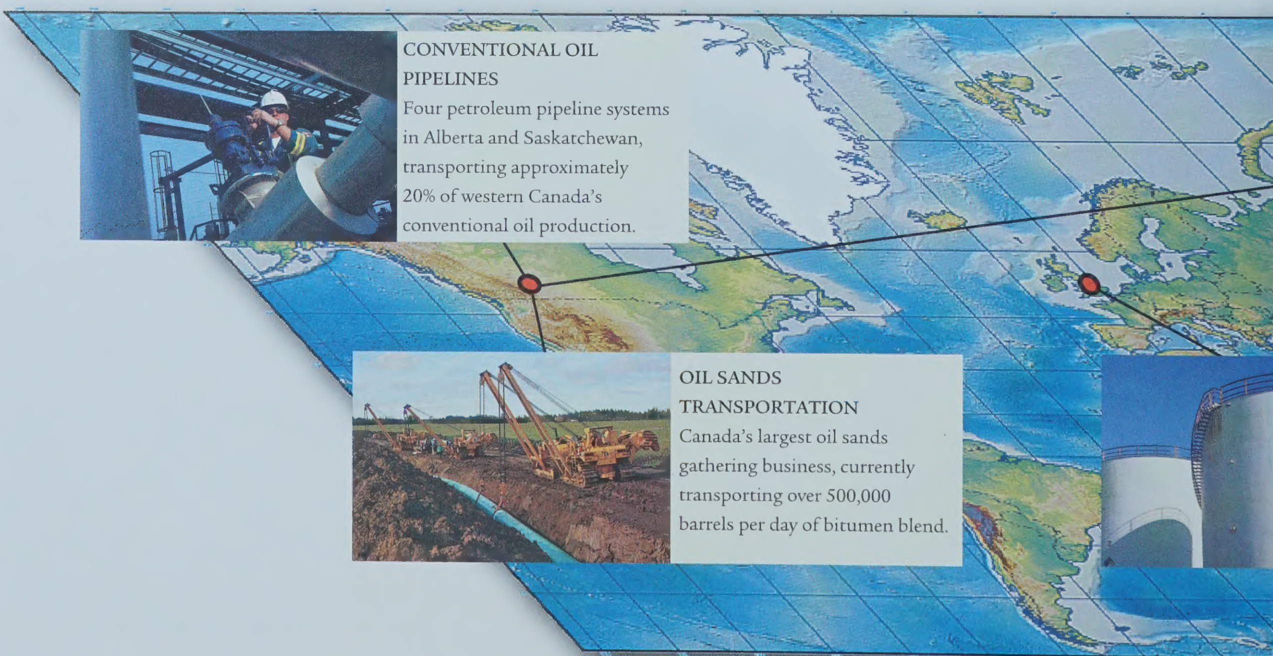
- $10 million completed in capital projects
- Bow River pipeline system reconfigured to expand deliveries to Montana

2000

- Acquired 15% interest in the Cold Lake pipeline system for $50 million
- First entry into the oil sands transportation sector
- Annualized cash distributions increased to $0.68 per unit

2001

- $23 millio completed capital pro
- 25,000 ba per day ca increase fo southbou shipments the Bow R pipeline sy



CONVENTIONAL OIL PIPELINES

Four petroleum pipeline systems in Alberta and Saskatchewan, transporting approximately 20% of western Canada's conventional oil production.

OIL SANDS TRANSPORTATION

Canada's largest oil sands gathering business, currently transporting over 500,000 barrels per day of bitumen blend.

2002

- $246 million secondary offering of Class A limited partnership units
- General Partner sold to Pipeline Assets Corp.
- Business renamed Inter Pipeline Fund

2003

- Acquired an additional 70% interest in the Cold Lake pipeline system from EnCana for $425 million
- Enterprise value reached $1 billion
- Annualized cash distributions increased to $0.72 per unit

2004

- Acquired NGL extraction assets from Williams Energy for $715 million
- Initial entry into the natural gas processing sector
- Annualized cash distributions increased to $0.75 per unit

2005

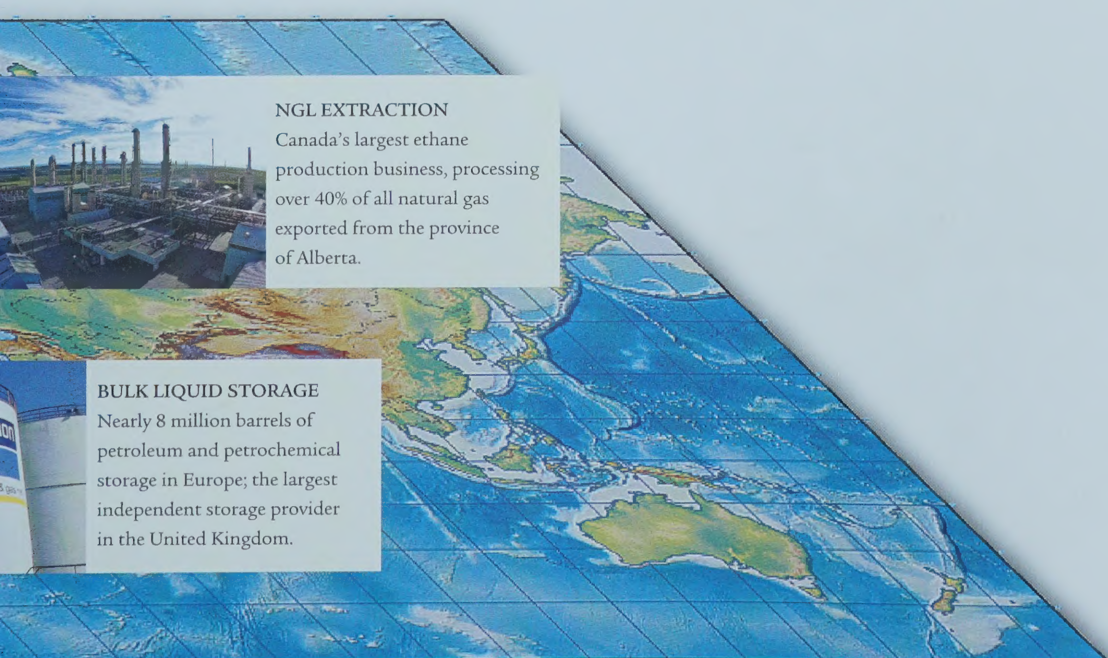
- Acquired Simon Storage Limited in the United Kingdom for $250 million
- Created first international business segment
- Annualized cash distributions increased to $0.78 per unit

2006

- Acquired Tanklager-Gesellschaft Hoyer mbH in Germany for $38 million
- Annual revenues surpass $1 billion
- Annualized cash distributions increased to $0.84 per unit

2007

- Acquired Corridor pipeline system from Kinder Morgan for $1.1 billion
- Signed Shell Canada as a new shipper on the Cold Lake pipeline system
- Completed $364 million in organic growth projects
- Enterprise value reached $4 billion



NGL EXTRACTION
Canada's largest ethane production business, processing over 40% of all natural gas exported from the province of Alberta.

BULK LIQUID STORAGE
Nearly 8 million barrels of petroleum and petrochemical storage in Europe; the largest independent storage provider in the United Kingdom.

Corporate map created by Lisa Strecko of Extra Special Presentations

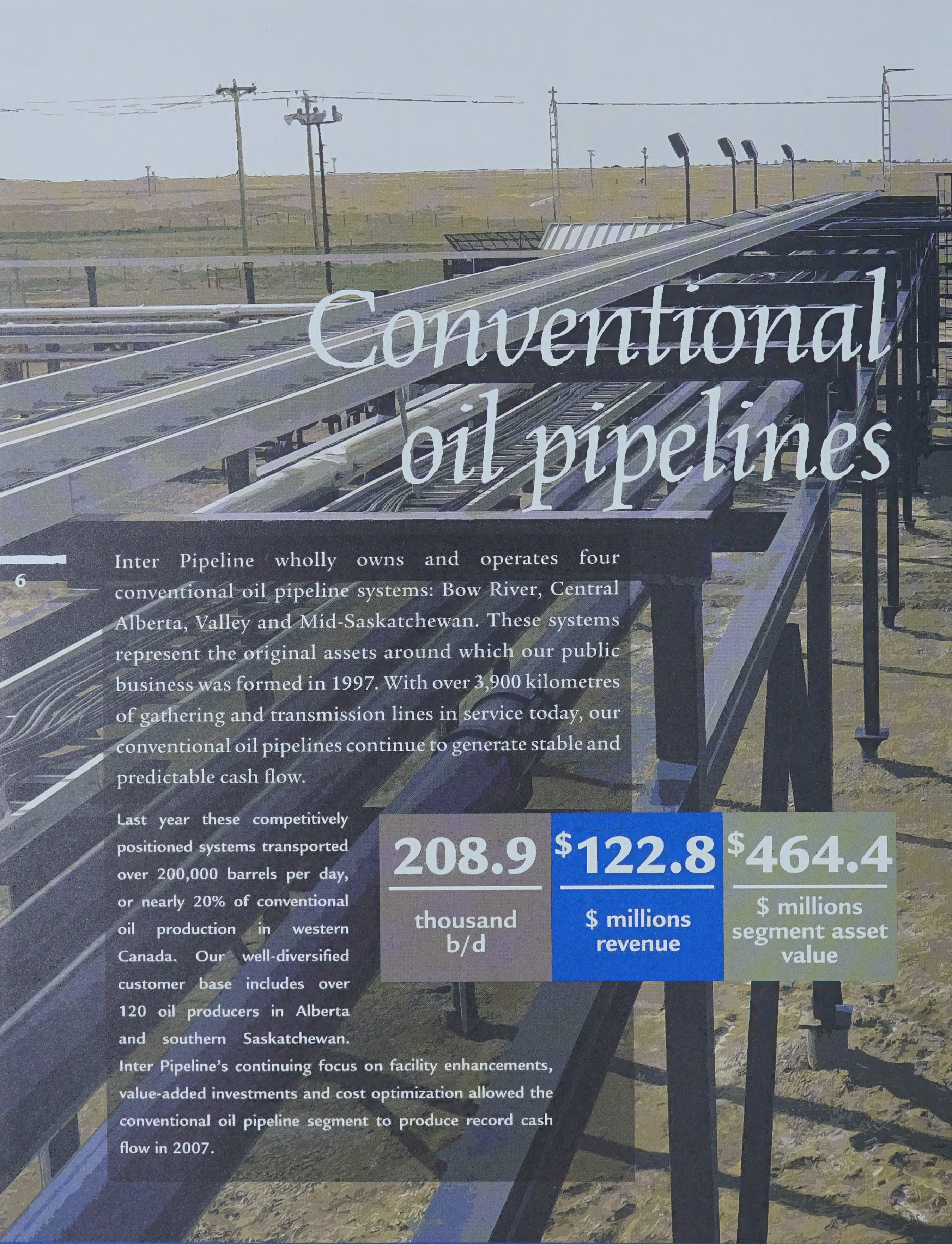
This is just the beginning.

THE NEXT 10 YEARS

Inter Pipeline enters 2008 as a $4 billion enterprise and Canada's largest oil sands gathering business. To us, that's not a destination – it's a launching pad. Our inventory of growth opportunities, including new strategic acquisitions and organic development projects, has never been stronger. A key focus area will continue to be the development of our oil sands transportation assets. Over the next three years, we are planning to invest in excess of $1.5 billion to expand capacity on the Corridor and Cold Lake pipeline systems.

While growing, Inter Pipeline will remain true to the principles that helped us succeed. We will stay focused on long-life energy infrastructure assets with stable cash flow characteristics. We will look to capture synergies between our business segments, while building upon our track record of strong environmental, health and safety performance.

As we start down the path of our next 10 years, we're very well positioned to achieve our goals. We've built a very strong business with excellent long term growth potential. Our future has never looked brighter.

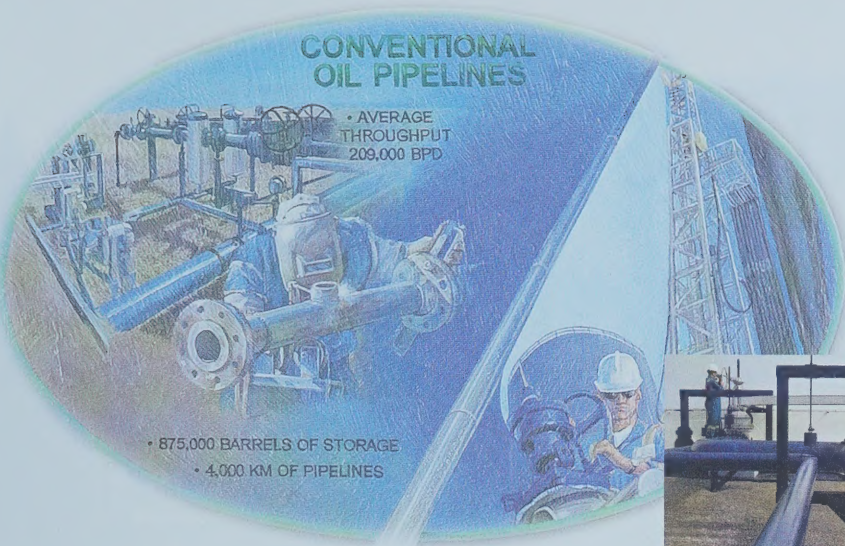


Conventional oil pipelines

Inter Pipeline wholly owns and operates four conventional oil pipeline systems: Bow River, Central Alberta, Valley and Mid-Saskatchewan. These systems represent the original assets around which our public business was formed in 1997. With over 3,900 kilometres of gathering and transmission lines in service today, our conventional oil pipelines continue to generate stable and predictable cash flow.

Last year these competitively positioned systems transported over 200,000 barrels per day, or nearly 20% of conventional oil production in western Canada. Our well-diversified customer base includes over 120 oil producers in Alberta and southern Saskatchewan. Inter Pipeline's continuing focus on facility enhancements, value-added investments and cost optimization allowed the conventional oil pipeline segment to produce record cash flow in 2007.

208.9	$122.8	$464.4
thousand b/d	$ millions revenue	$ millions segment asset value



THE FUTURE

We expect our conventional oil pipelines will continue generating long-term, stable cash flow. To achieve this objective, we will invest in new pipeline, storage and transfer facilities to reflect changing oil receipt and delivery patterns. We will also look to continuously improve our margins through toll management and cost optimization practices.

Since 1997 we have invested over $50 million in mainline expansion and reconfiguration projects on the Bow River pipeline system. Going forward we expect to make further investments to increase capacity available for deliveries into the Montana refining market, while improving access to oil supplies sourced from the market hub at Hardisty, Alberta. We will also capture opportunities to connect new oil production sites and further rationalize our oil gathering systems in areas experiencing production declines.

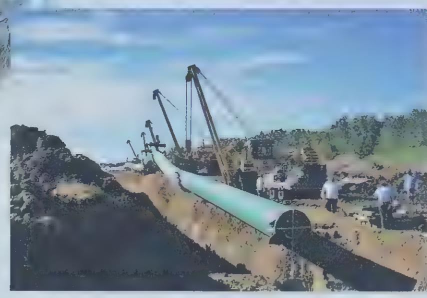
Inter Pipeline's conventional oil gathering systems continue to generate stable and predictable cash flow.

Oil sands transportation

Inter Pipeline initially entered the oil sands transportation sector in 2000 with a $50 million investment to acquire a 15% interest in the Cold Lake pipeline system. Since then, Inter Pipeline has grown to become the largest oil sands gathering business in Canada. We now own an 85% interest in the Cold Lake pipeline and wholly own the Corridor oil sands pipeline system. Collectively, these systems transport over 500,000 barrels per day of bitumen blend today.

457.7	$109.0	$1,897.3
thousand b/d	$ millions revenue	$ millions segment asset value

Inter Pipeline's $1.1 billion acquisition of the Corridor pipeline from an affiliate of Kinder Morgan last June represents our largest acquisition to date. The transaction involved the purchase of the existing Corridor system in service today, and a partially completed capacity expansion project. Our total capital commitment, including the obligation to complete the capacity expansion project, is roughly $2.6 billion.



THE FUTURE

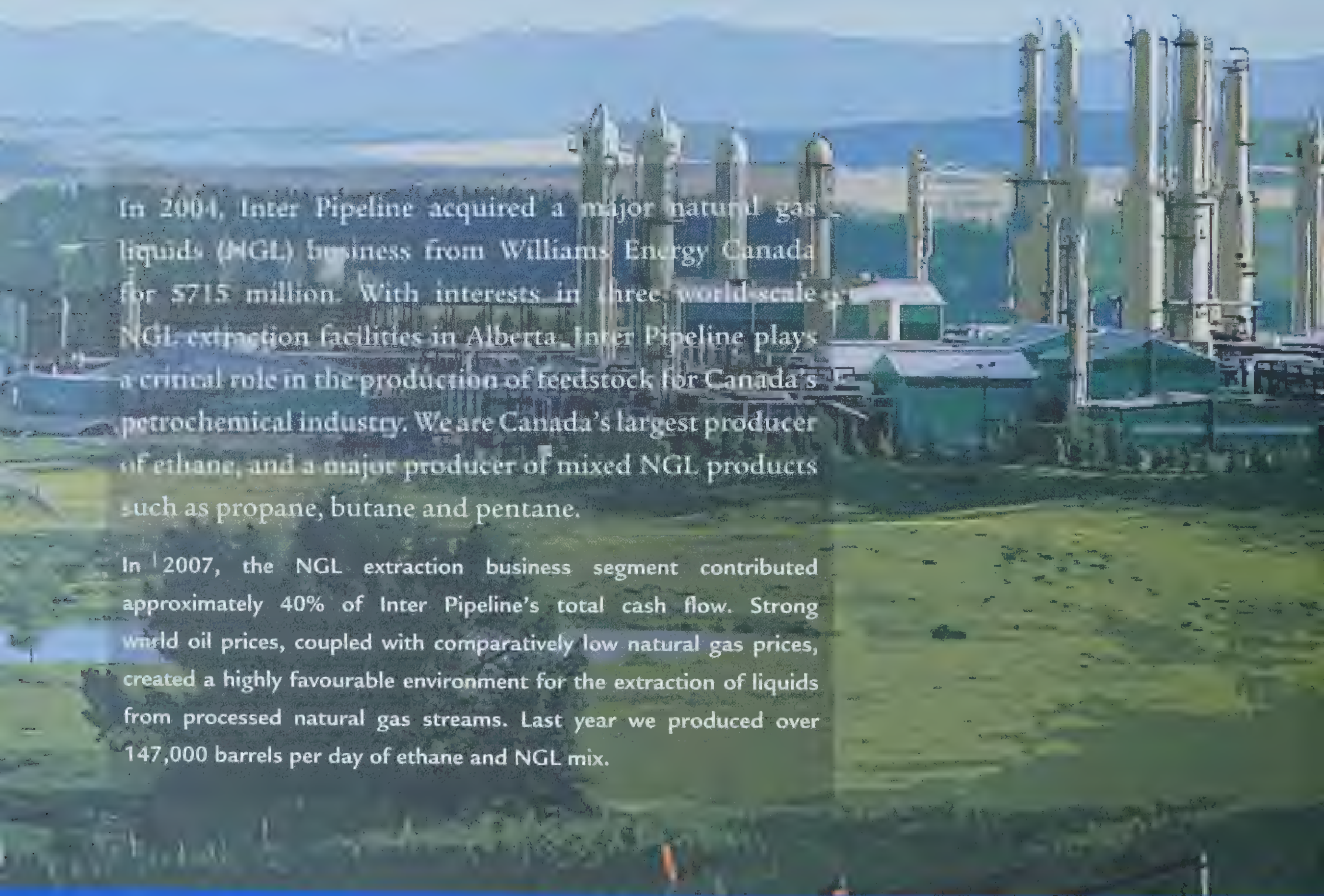
The production potential of Alberta' vast oil sands deposits has received significant global attention in recent years. With an estimated 300 billion barrels of recoverable oil in place, production is estimated to grow to 3 million barrels per day over the next decade.

Inter Pipeline's Cold Lake and Corridor pipeline systems are very well positioned to benefit from the expected production growth from Canada's oil sands. On the Cold Lake system, we are currently expanding delivery capacity from 435,000 barrels per day to 560,000 barrels per day. On the Corridor system, we are in the process of expanding capacity from 300,000 barrels per day to 465,000 barrels per day. Future capacity expansions on these systems could ultimately provide delivery capacity of 2.1 million barrels per day of oil sands products.

The $1.8 billion capacity expansion project on the Corridor pipeline system remains on schedule and on budget.

NGL *extraction*

147.5	$756.7	$765.8
thousand b/d	$ millions revenue	$ millions segment asset value



In 2004, Inter Pipeline acquired a major natural gas liquids (NGL) business from Williams Energy Canada for $715 million. With interests in three world-scale NGL extraction facilities in Alberta, Inter Pipeline plays a critical role in the production of feedstock for Canada's petrochemical industry. We are Canada's largest producer of ethane, and a major producer of mixed NGL products such as propane, butane and pentane.

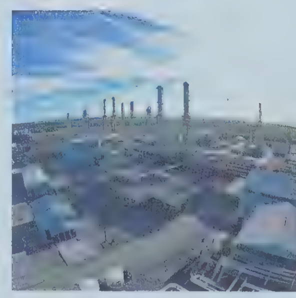
In 2007, the NGL extraction business segment contributed approximately 40% of Inter Pipeline's total cash flow. Strong world oil prices, coupled with comparatively low natural gas prices, created a highly favourable environment for the extraction of liquids from processed natural gas streams. Last year we produced over 147,000 barrels per day of ethane and NGL mix.

THE FUTURE

Inter Pipeline's NGL extraction facilities are strategically located on major transmission pipelines which export natural gas from the province of Alberta. With combined processing capacity in excess of 6.2 billion cubic feet of natural gas per day, they are among the largest NGL extraction plants in North America. Inter Pipeline's assets are well positioned to play an important role in the extraction of NGL from natural gas supplies that may be sourced in the future from Canada's Mackenzie Delta and the State of Alaska.

To meet growing petrochemical demand, Inter Pipeline is advancing several projects to increase ethane recovery at its NGL extraction plants. These projects include the planned construction of a fourth processing train at our extraction facility near Cochrane, Alberta. We are also constructing new facilities at the Empress V extraction plant to increase ethane production capacity by approximately 7,000 barrels per day by the end of 2008.

Inter Pipeline's NGL extraction facilities process over 40% of all natural gas exported from Alberta.



Bulk liquid storage

96.2%	$156.5	$422.3
utilization	$ millions revenue	$ millions segment asset value

Inter Pipeline's newest business segment was created in 2005 through the strategic acquisition of Simon Storage Limited for $250 million. As the largest independent provider of bulk liquid storage services in the United Kingdom, Simon Storage operates seven deep water terminals along the coasts of England and Ireland. In 2006 we acquired Tanklager-Gesellschaft Hoyer mbH, based in Mannheim, Germany, for $38 million. This acquisition allowed Inter Pipeline to expand its storage activities into continental Europe through the operation of two terminals located on the Rhine River.

Inter Pipeline's European bulk liquid storage business consists of nearly 600 storage tanks with a combined capacity of approximately 8 million barrels. Demand for petroleum and petrochemical storage remained very strong throughout 2007. Our business in Europe again benefited from very high utilization rates, setting the stage for future capacity expansions.

THE FUTURE

A major commercial focus at Simon Storage in recent years has been the development of storage and product handling infrastructure in support of the growing biofuel sector in Europe. The two largest biofuel plants in production today in the United Kingdom are located at Simon Storage's terminal sites at Immingham and Seal Sands. We expect to see continuing strong growth in the biofuel sector in the years ahead as European governments impose new requirements for the blending of biofuel components in motor fuel stocks. Simon will leverage its storage facilities and expertise in this area to capture new growth opportunities.

Throughout our operations in Europe, we will look to further improve our margins and build new storage facilities at locations with capacity constraints. For example, Simon Storage is currently in the process of adding over 300,000 barrels of storage capacity at its Immingham east and west terminals.

Inter Pipeline's bulk liquid storage assets in Europe are benefiting from strong growth in the biofuel market.

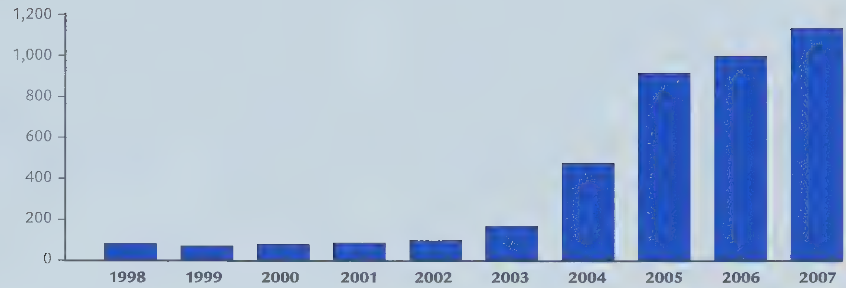
Turning vision into value

SELECTED FINANCIAL AND OPERATIONAL HIGHLIGHTS

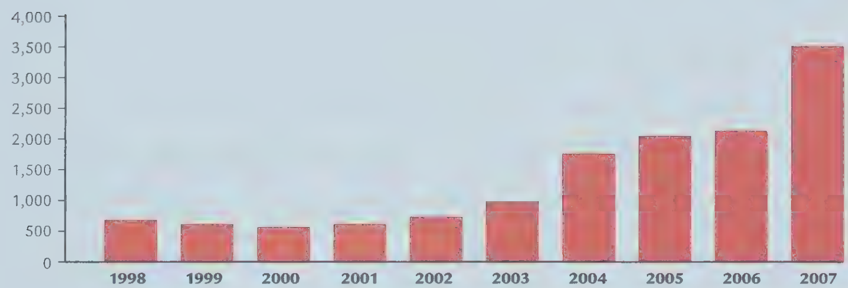
	2007	2006	1 Year % Change
Volume (thousands of barrels per day)			
Pipeline Volumes*			
Conventional Oil Pipelines	**208.9**	211.9	(1%)
Oil Sands Transportation	**457.7**	329.9	39%
Total Pipeline	**666.6**	541.8	23%
NGL Extraction Volumes			
Ethane	**90.0**	89.2	1%
Propane Plus	**57.5**	52.9	9%
Total NGL Extraction Volumes	**147.5**	142.1	4%
Capacity Utilization (%)			
Bulk Liquid Storage	**96.2%**	95.3%	n/a
($ millions, except where noted)			
Revenue	**1,145.0**	1,011.0	13%
EBITDA	**321.6**	246.9	30%
Funds from Operations	**246.9**	205.4	20%
Net (Loss) Income	**(80.0)**	130.6	(161%)
Cash Distributions	**171.7**	160.8	7%
Cash Distributions (per unit)	**0.84**	0.80	5%
Payout Ratio Before Sustaining Capital (%)	**69.5%**	78.3%	n/a
Total Assets	**3,549.8**	2,157.1	65%
Partners' Equity	**1,064.2**	1,198.4	(11%)
Market Capitalization	**2,096.2**	1,823.6	15%
Total Enterprise Value	**3,984.0**	2,510.1	59%

* Volumes reported on 100% basis, Corridor was acquired on June 15, 2007 therefore volumes represent 199 days of operations and have been prorated over the twelve month period.

REVENUE
($ millions)

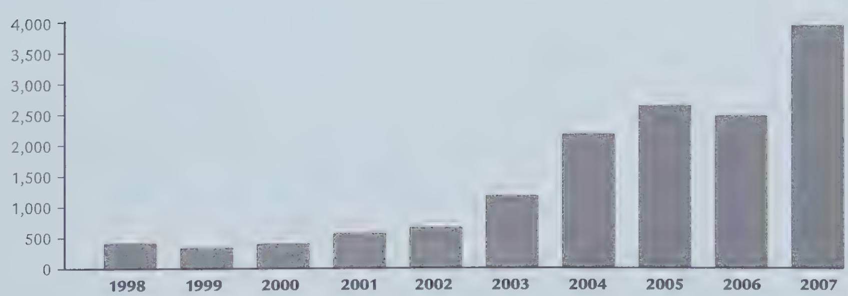


TOTAL ASSETS
($ millions)



CUMULATIVE CASH DISTRIBUTIONS
($ millions)

ENTERPRISE VALUE
($ millions)



President's message

On November 27, 2007, Inter Pipeline celebrated its tenth anniversary as a publicly traded business in Canada. President and Chief Executive Officer David Fesyk has been at the helm from the very beginning. In this interview, on February 18th he offers his insight into Inter Pipeline's rapid growth and transformation into one of the largest energy infrastructure businesses in Canada.

Inter Pipeline's ten year anniversary coincides with the release of record financial and operating results. You must be very pleased with Inter Pipeline's performance over the past year.

Very much so. We achieved a number of milestones in 2007. Our revenues surpassed the $1.1 billion mark for the first time, and our enterprise value grew to $4 billion. Inter Pipeline also set new records with respect to annual cash flow and cash distributions paid to our unitholders.

Operationally, we achieved new records for pipeline throughput and NGL production. Our pipeline systems shipped an average volume of 666,600 barrels per day, and our NGL extraction facilities produced 147,500 barrels per day of ethane and propane plus.

We also successfully completed two important financings to strengthen our balance sheet and meet the funding requirements of Inter Pipeline's ambitious capital program over the next few years. In August we established a new $2.2 billion credit facility with a syndicate of Canadian and international lenders. And in December we successfully closed a $150 million offering of new Class A limited partnership units.

Q So what were the key factors that drove Inter Pipeline's record results in 2007?

A Generally speaking, our business benefits in industry environments characterized by strong world oil prices, comparatively low natural gas prices in North America and strong demand for petrochemical and petroleum storage capacity. That's exactly the environment we found ourselves in throughout most of 2007.

Our year-over-year results also reflect our acquisition of the Corridor pipeline system from Kinder Morgan in June of last year. That was our largest acquisition to date and it establishes Inter Pipeline as the largest oil sands gathering business in Canada.

Q Inter Pipeline seems to be increasingly focused on infrastructure serving Alberta's oil sands. Is this Inter Pipeline's future direction?

A I don't think anyone can deny the enormous potential of Alberta's oil sands reserves. These deposits are estimated to contain over 300 billion barrels of recoverable oil, representing the largest proven reserve base outside the Middle East. The oil sands are, and will continue to be, a cornerstone of our growth strategy.

Inter Pipeline's Cold Lake and Corridor oil sands pipelines are currently transporting over 500,000 barrels per day of bitumen blend. We are in the process of installing additional capacity on those systems and, by 2010, we expect to achieve combined delivery capacity of over one million barrels per day. At that time, we anticipate that roughly 55% of Inter Pipeline's cash flow will be derived from our oil sands transportation business unit.

Q **With a price tag of over $1 billion, Corridor was certainly a major acquisition for Inter Pipeline. What made this acquisition opportunity attractive to you?**

A As you say, Corridor was a big bite for us. In addition to acquiring the oil sands pipeline system in service today, we also stepped into a major capacity expansion project that's now under construction. Our total capital commitment related to this acquisition is roughly $2.6 billion.

In terms of attractiveness, Corridor was a perfect fit with our strategic plan. It's a world scale energy infrastructure asset with excellent growth potential. Cash flow is secured under long-term contracts with senior integrated oil companies, namely Shell, Chevron and Marathon. Corridor will contribute stable, predictable cash flow, and it fits well within our internal capabilities as a pipeline operator. In our industry, we don't see opportunities like this come along very often.

Q **Scale seems to be a common theme with Inter Pipeline's recent acquisitions.**

A That's exactly right. Our objective is to own and operate world scale energy infrastructure assets, and I think we've achieved that through our recent acquisitions. Inter Pipeline now transports around 28% of all oil produced in western Canada, and we are the largest oil sands gathering business by volume. Our NGL extraction plants process over 40% of all natural gas exported from the province of Alberta, and we are the largest ethane producer in Canada. Overseas, we own the largest independent bulk liquid storage business in the United Kingdom.

A larger scale asset base creates more opportunities to capture operational efficiencies. We also find that larger scale assets introduce more development opportunities like capacity expansion and reconfiguration projects. These types of investments often generate attractive returns since we are building upon an existing base of infrastructure.

Q Inter Pipeline has completed over $2.5 billion in acquisitions over the past five years. That must have created a number of challenges within the organization.

A Without question, our rapid growth has created strains on the organization. Our employees, in particular, have endured a tremendous amount of change in a short period of time. We've constantly challenged our people to integrate new operations, develop an expanding asset base and secure funding to meet our capital requirements. Attracting and retaining employees in our tight labour market has also been a constant challenge.

I'm proud of the way our employees have embraced change, and I'm equally proud of the way our organizational culture has evolved. We've built a very cohesive, entrepreneurial, fast-moving and decision-oriented team.

Q Inter Pipeline seems to have a lot of momentum these days. But that wasn't always the case. Please comment on Inter Pipeline's early experience as a public company.

A Well, things didn't exactly go according to plan at the beginning. Within months of going public in late 1997, world oil demand fell off sharply. Crude oil prices eventually bottomed out at around $12 per barrel in 1998. At that time, our entire business consisted of four conventional oil gathering pipelines in Alberta and Saskatchewan. The subsequent collapse in drilling activity in western Canada had a significant impact on our throughput volumes.

So within two years of going public, oil deliveries on our pipelines had fallen by roughly 75,000 barrels per day. As you would expect, lower volumes had a direct impact on our cash flow, and we were forced to cut our cash distribution payments to unitholders by 27%.

Q What did you learn from that experience and how did it affect your strategy?

A First, it became clear that we needed to diversify our asset base. If we continued to define ourselves solely as a conventional oil gathering business, we would remain exposed to often volatile commodity price cycles.

Second, we realized that we needed to introduce longer-term and higher quality commercial contracts with our customers to help stabilize our cash flow. Our customer base at the time was well-diversified in terms of the number of oil producers shipping on our systems, but our commercial contracts were inherently short-term in nature. We needed to create a new, stable base of cash flow that was not directly tied to monthly oil production levels within a finite geographical area.

Finally, it became apparent that we needed to simply get larger. Back in the late 1990s, the universe of royalty trusts, income funds and limited partnerships was quite small. However, even then it was clear that larger enterprises enjoyed stronger valuations in the public market. We knew that by growing and increasing our market capitalization, we could improve our liquidity, broaden our investor base and ultimately lower our overall cost of capital.

Q Were there any particular turning points along the way that helped get Inter Pipeline on such an impressive growth track?

A Without question, the most significant turning point for us was the sale of the General Partner in late 2002. That change of control event resulted in Pipeline Management Inc. becoming the new General Partner, replacing Koch Industries, Inc. of Wichita, Kansas. An entirely new board was formed and our name was changed to Inter Pipeline Fund.

The new board, chaired by John Driscoll, gave Inter Pipeline's management team a very strong and clear mandate to grow the business. Instead of harvesting a fairly mature pipeline business, we were challenged to aggressively expand through corporate acquisitions and investment in organic development projects. That certainly was a refreshing change in direction for our employees and the business overall.

Q Under the new General Partner, it didn't take Inter Pipeline very long to execute its first major acquisition. Please describe your purchase of EnCana's interest in the Cold Lake pipeline system in 2003.

A There certainly were some interesting dynamics at play during that acquisition process. We announced our $425 million purchase of EnCana's 70% interest in the Cold Lake pipeline system literally within weeks of the sale of the General Partner. We had a lot on our plates at the time, including the transition of pipeline operations to the new General Partner. We also were in the process of finding new office space and replacing key support services formerly provided by Koch Industries.

At year end 2002, Inter Pipeline had an enterprise value of only $690 million, so the Cold Lake acquisition almost doubled the size of the business. Our financing plan involved initially funding the acquisition through existing lines of credit and a new syndicated bridge loan. Adding that much debt, even on an interim basis, would have put us off-side with a borrowing restriction within our Limited Partnership Agreement. Therefore we needed

to carefully coordinate a unitholder meeting to approve an amendment that allowed us to submit an unconditional, binding bid to EnCana. That added another degree of timing risk and complexity to the deal.

But in the end we prevailed as an organization. In January 2003 we successfully closed the transaction with EnCana and we became operator of the Cold Lake system. That established Inter Pipeline as a major player in the oil sands transportation sector. It also proved to be a particularly rewarding and unifying experience for all of our employees.

Q Since those eventful days, Inter Pipeline has continued to add new lines of business. You purchased a major NGL extraction business in Canada and an interesting storage business in Europe. How do these step-out acquisitions fit within Inter Pipeline's overall strategic plan?

A In 2004 we acquired the Canadian NGL extraction business from Williams Energy Canada for $715 million. That acquisition was an excellent fit with our strategic plan because it enabled Inter Pipeline to enter a new complementary line of business built around world-scale production facilities. We also liked the fact that all NGL production is sold under long-term contracts to three senior players in the petrochemical sector: BP, Dow and Nova Chemicals.

Our next major growth initiative involved the acquisition of two independent bulk liquid storage businesses in Western Europe. In October 2005, we purchased Simon Storage in the United Kingdom for roughly $250 million. As a follow-on investment, Inter Pipeline acquired two bulk liquid storage terminals in Germany from Hoyer GmbH for approximately $40 million. Collectively, these businesses operate roughly 600 tanks with petroleum and petrochemical storage capacity of nearly 8 million barrels. We like the fundamentals of this business, its high capacity utilization rates and its stable cash flow characteristics.

Q Turning to the current environment, a topic that continues to attract attention in the media and the investment community is the government's plan to begin taxing trusts and similarly organized entities in 2011. How is Inter Pipeline positioned to deal with the so called "Tax Fairness Plan"?

A We've taken some very proactive steps to address the impact of taxation in 2011. Our recent acquisition of the Corridor oil sands system will play an important role in our long-term tax mitigation strategy. When the $1.8 billion capacity expansion project on Corridor is complete in 2010, Inter Pipeline will begin generating a material amount of incremental cash flow. The timing of that new cash flow will be well-matched to the time horizon when we will become a taxable entity. Between now and 2011, we also intend to preserve our discretionary tax pools to help reduce taxable income in the future.

When we take into account our tax planning efforts and our strong outlook for the business, we believe Inter Pipeline's current cash distributions to unitholders will be sustainable through 2011 and beyond. I think that leaves Inter Pipeline in a fairly unique position relative to our peers in the income trust sector.

Q Has the recent volatility we've seen in capital markets changed your outlook on growth?

A Financial markets are still adjusting to the credit crunch, the sub prime loan situation in the U.S., fears of a North American recession, liquidity concerns and recent interest rate movements by the central banks. There are a lot of moving parts in the markets these days, often providing conflicting signals. This has created a tremendous amount of volatility in both the debt and equity capital markets.

As a growth-oriented business, Inter Pipeline needs to have continuing access to competitively-priced and diversified sources of capital. Recent market volatility is a concern, but it certainly hasn't altered our long-term outlook on growth.

We've been successful building a strong, well-positioned business which is supported by an investment grade credit rating. Inter Pipeline has created a portfolio of world-scale assets which generate stable, contract-based cash flow. These characteristics should remain attractive to investors during periods of market volatility.

Q Finally, I'd like to get a sense of the future direction and investment priorities of Inter Pipeline. Where will your focus be in the years ahead?

A In a nutshell, we intend to pursue the same growth strategy that has driven our success in the past. That will involve a combination of investments in organic development projects within our existing asset base and the acquisition of complementary lines of business involving energy infrastructure.

In the near term, we will remain focused on the development of our Corridor and Cold Lake oil sands pipelines. On both systems, we have major capacity expansion underway to accommodate increasing bitumen production. We also intend to invest in various organic development projects within our conventional oil gathering, NGL extraction and bulk liquid storage business segments. In 2008 we expect to invest almost $1 billion in various projects to expand and enhance our assets.

As in the past, we will continue to look for acquisition opportunities involving large-scale energy infrastructure with stable cash flow characteristics. In that regard, we are currently focusing our commercial efforts in North America and the European Union. Our strategic plan includes an attractive mix of investment opportunities including green field development projects, acquisitions to expand our existing lines of business and potential step-out investments.

Q Reflecting back on Inter Pipeline's first decade, what are your closing thoughts?

A For me personally, it has been a very rewarding experience to witness the growth and evolution of our business first hand and from the very beginning. It has been quite a ride.

I don't think you can grow a business as quickly as we have without making some pretty big bets along the way. Fortunately, we did our homework and everything has worked out very well. Our overall success would clearly not have been possible without the dedication and entrepreneurial spirit of our employees and the strong support of our board.

Environment, health & safety

At Inter Pipeline, we are very proud of our track record of strong environment, health and safety performance. Our programs, policies and procedures are designed to promote the highest standards in worker safety, ensure the long-term integrity and reliability of our assets, and minimize potential impacts on the environment.

Across our operations we maintain comprehensive systems to assess the condition of our assets, identify and address risks, and scorecard our performance against compliance requirements and best practises in industry. Our employee training, safety, maintenance planning, asset inspection, compliance and cost control systems continue to evolve as Inter Pipeline's business continues to grow and our operations become more complex.

THE FUTURE

Inter Pipeline has established a strong reputation as a safe, compliant and reliable operator. These capabilities, in turn, have allowed us to efficiently and effectively integrate new operations as we have expanded into new lines of business.

In the near term, Inter Pipeline will remain focused on the completion of major capacity expansion projects on the Corridor and Cold Lake pipeline systems. These projects involve large-scale construction and commissioning activities that require careful planning and the effective management of a large, diversified workforce. To ensure success, we must rigorously apply our safety, project management and cost control systems to each phase of development.

Inter Pipeline is fully committed to the health and safety of our employees and contract workers. We will work hard to further improve our operational performance, while minimizing impacts on the environment and the communities in which we operate. Inter Pipeline has developed strong operational programs and a culture that puts safety first. Acting together, we are confident that we will achieve our objectives with respect to the environment and worker safety.

Management's Discussion and Analysis

PERFORMANCE VS. OBJECTIVES

Develop and expand Inter Pipeline's existing asset base

In 2007 we invested a record $364 million in organic [illegible]

Acquire complementary energy infrastructure businesses

Inter Pipeline's $1.1 billion acquisition of the Corridor pipeline system from an affiliate of Kinder Morgan represents our largest acquisition to date. As a result, we have become the largest oil sands gathering business in Canada.

Ensure safe, compliant and reliable operations

[illegible]

Provide investors with attractive, long-term returns

[illegible]

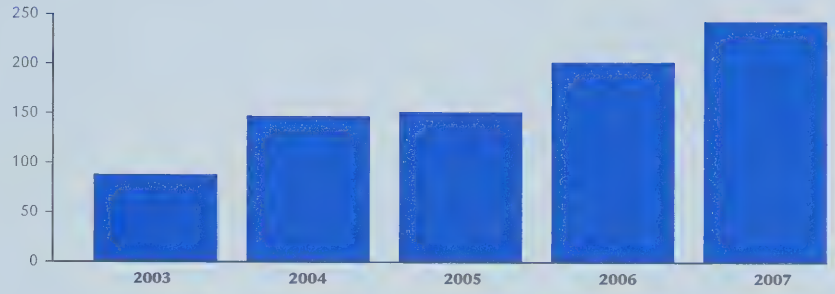
Prudently manage our balance sheet

During 2007, Inter Pipeline established a new $2.2 billion syndicated credit facility and successfully closed a $150 million offering of Class A limited partnership units. These financings provide access to the capital required to fund the current Corridor expansion project, while improving balance sheet flexibility to pursue future growth investments.

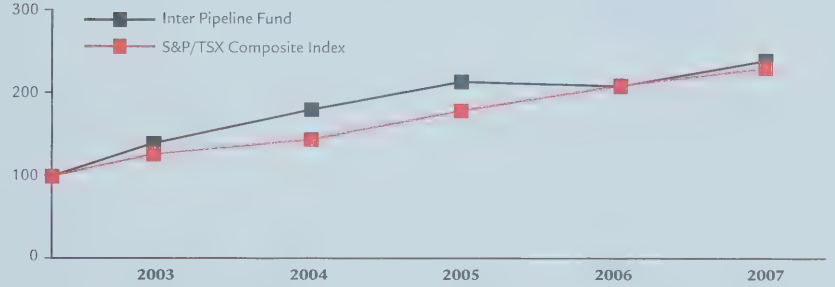
Ensure new investments are accretive to cash flow

[illegible]

FUNDS FROM OPERATIONS
($ millions)

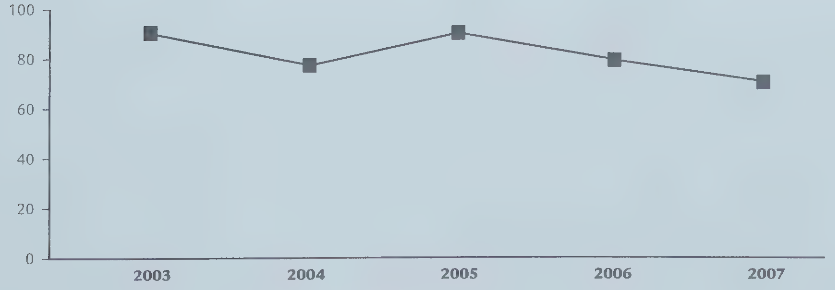


TOTAL RETURN
(%)



CASH DISTRIBUTIONS PER UNIT
($)

PAYOUT RATIO
(%)



For the fourth quarter and year ended December 31, 2007

The Management's Discussion and Analysis (MD&A) provides a detailed explanation of Inter Pipeline Fund's (Inter Pipeline) operating results for the three month period and year ended December 31, 2007 as compared to the three month period and year ended December 31, 2006. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31, June 30, September 30, 2007 and 2006, the audited consolidated financial statements for the years ended December 31, 2007 and 2006, MD&A for the year ended December 31, 2006, the Annual Information Form (AIF) and other information filed by Inter Pipeline at www.sedar.com.

Financial information presented in this MD&A, with the exception of non-GAAP measures, is based on information in Inter Pipeline's consolidated financial statements. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A reports on certain non-GAAP measures that are used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP measures may not have a standardized meaning, securities regulations require that non-GAAP measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the NON-GAAP FINANCIAL MEASURES section for further information on the definition, calculation and reconciliation of consolidated non-GAAP measures. All amounts are in Canadian dollars unless other wise specified.

Management considers whether information presented in this MD&A is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in Inter Pipeline would likely be influenced or changed if the information was omitted or misstated.

2007 HIGHLIGHTS

- Announced Inter Pipeline is well positioned to maintain cash distributions to unitholders through 2010 and beyond, despite becoming taxable in 2011
- Record funds from operations* of $246.9 million, up $41.5 million or 20% over 2006
- Lowest ever annual payout ratio before sustaining capital* of 69.5%
- Cash distributions to unitholders totalled $171.7 million, or $0.84 per unit during the year
- Successfully completed the acquisition of the Corridor pipeline system for approximately $1.1 billion, including the assumption of debt; making Inter Pipeline Canada's largest oil sands gathering business
- Financed the expansion and development of the Corridor pipeline system by closing a $2.2 billion syndicated credit facility in August 2007
- Volumes on the oil sands transportation and conventional oil pipeline systems averaged 666,600 barrels per day (b/d) during the year, or 124,800 b/d higher than in 2006
- Shell Canada Energy's Orion oil sands project was successfully connected to the Cold Lake pipeline system.

FOURTH QUARTER HIGHLIGHTS

- Highest ever quarterly funds from operations* of $79.5 million, representing a 68% increase compared to the same quarter in 2006
- Record low quarterly payout ratio before sustaining capital* of 55.4%
- Cash distributions to unitholders totalled $44.0 million, or $0.21 per unit during the quarter
- Oil sands transportation and conventional oil pipeline systems transported 731,100 b/d during the quarter, or 170,400 b/d more than in Q4 2006
- Raised $150 million through successful Class A unit equity offering
- Announced largest capital expenditure program of approximately $1 billion for 2008.

*Please refer to the **NON-GAAP FINANCIAL MEASURES** section

PERFORMANCE OVERVIEW
YEAR ENDED DECEMBER 31, 2007

	Years Ended December 31	
(millions, except per unit and % amounts)	**2007**	2006
Funds from operations		
Oil sands transportation	**$ 58.7**	$ 37.5
NGL extraction	**145.7**	111.3
Conventional oil pipelines	**86.5**	81.1
Bulk liquid storage	**44.0**	38.4
Corporate costs	**(88.0)**	(62.9)
	$ 246.9	$ 205.4
Cash distributions to unitholders	**$ 171.7**	$ 160.8
Cash distributions per unit	**$ 0.84**	$ 0.80
Payout ratio before sustaining capital	**69.5%**	78.3%

Inter Pipeline produced excellent results for the year ended December 31, 2007. Funds from operations increased $41.5 million or 20.2% when compared to 2006, resulting in a low payout ratio before sustaining capital of 69.5%. These positive results were driven primarily by favourable commodity prices in the natural gas liquids (NGL) extraction business and the acquisition of the Corridor pipeline system (Corridor) in June 2007. These results were offset somewhat by increases in financing charges and general and administrative expenses mainly as a result of acquiring Corridor, and an acquisition fee paid to Pipeline Management Inc., the General Partner of Inter Pipeline (General Partner). See **RESULTS OF OPERATIONS** section for further discussion of each business segment's operating results.

Total cash distributed to unitholders in 2007 increased $10.9 million or 6.8% to $171.7 million compared to the $160.8 million distributed in 2006. The increase is attributable to an increase in the number of units outstanding and a cash distribution per unit increase that was effective September 2006.

Outstanding long-term debt increased $1,200.8 million to $1,887.8 million at December 31, 2007 up from $687.0 million outstanding at December 31, 2006. In August 2007, Inter Pipeline entered into a new $2.2 billion syndicated credit facility, the proceeds of which are primarily being employed to finance Corridor's operations and its ongoing $1.8 billion pipeline expansion project. Inter Pipeline also expanded the size of its existing revolving credit facility by $250 million to $750 million to partially finance the Corridor acquisition. In December 2007, Inter Pipeline closed a public unit offering of Class A units for gross proceeds of $150.0 million which were applied to reduce bank debt. As a result, Inter Pipeline's consolidated debt to total capitalization ratio at December 31, 2007 was 64.0%. Adjusting for the impact of Corridor's non-recourse debt of $847.8 million, Inter Pipeline's recourse debt to capitalization ratio was a favourable 44.3% at year end.

Net income for 2007 decreased approximately $210.6 million to a net loss of $80.0 million from net income of $130.6 million in 2006. This is primarily due to the recognition of approximately $218.5 million of non-cash expense for future income taxes as a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007 in June 2007. In addition, Inter Pipeline recognized approximately $27.5 million of non-cash unrealized losses on its derivative financial instruments as a result of management's decision to discontinue hedge accounting. Excluding the impact of the recognition of this non-cash future tax expense and the unrealized loss on its derivative financial instruments, net income for the year would have been $166.0 million or approximately $0.82 per unit as compared to net income of $130.6 million or $0.65 per unit in 2006. See **RESULTS OF OPERATIONS – OTHER EXPENSES** for further discussion on the increase in future income taxes.

THREE MONTHS ENDED DECEMBER 31, 2007

(millions, except per unit and % amounts)	Three Months Ended December 31 **2007**	2006
Funds from operations		
Oil sands transportation	**$ 20.2**	$ 8.1
NGL extraction	**50.7**	25.6
Conventional oil pipelines	**22.3**	20.8
Bulk liquid storage	**9.0**	9.9
Corporate costs	**(22.7)**	(17.2)
	$ 79.5	$ 47.2
Cash distributions to unitholders	**$ 44.0**	$ 42.3
Cash distributions per unit	**$ 0.21**	$ 0.21
Payout ratio before sustaining capital	**55.4%**	89.7%

Funds from operations for the three months ended December 31, 2007 were $79.5 million, an increase of $32.3 million or 68.4% when compared to the fourth quarter of 2006. Favourable commodity prices and volume increases in the NGL extraction business, and the addition of Corridor to Inter Pipeline's operations contributed to the majority of this increase. Corporate costs increased primarily due to additional financing costs associated with Corridor.

Total cash distributed to unitholders in the fourth quarter of 2007 increased $1.7 million or 4.0% over the comparative period in 2006. This increase in distributions is attributable to an increase in the number of units outstanding during the period.

Net income for the three months ended December 31, 2007 increased approximately $47.6 million or 168.2% to $75.9 million from net income of $28.3 million in the fourth quarter of 2006. Net income increased for the same reasons as described in the funds from operations discussion above. In addition, a reduction in the non-cash future income tax provision, offset somewhat by increases in unrealized losses on derivative financial instruments and other non-cash expenses, also served to increase net income.

OUTLOOK

In 2007, Inter Pipeline materially expanded its platform of long-life, high quality energy infrastructure assets, strengthening the sustainable and predictable nature of Inter Pipeline's business. Specifically, the acquisition of the Corridor pipeline system from an affiliate of Kinder Morgan Inc. in June 2007 has set the stage for Inter Pipeline to sustain its current cash distribution level well into the future, despite becoming fully taxable in 2011. In addition, this acquisition is fuelling the largest organic growth program in the history of the business. In 2008, Inter Pipeline expects to invest approximately $1 billion on organic growth capital projects. Roughly 94% of that amount is being invested in the oil sands transportation business segment comprised of the Cold Lake and Corridor pipeline systems.

Corridor will realize the largest portion of Inter Pipeline's organic growth capital expenditure program in 2008. Most of the $866 million of total 2008 forecast expenditures will be expended on a major pipeline expansion project. Upon completion of this $1.8 billion expansion (expected to be in service in 2010), bitumen blend capacity on the Corridor system is expected to increase from 300,000 b/d to 465,000 b/d. This additional capacity will accommodate shipments of increased oil sands production from the Athabasca Oil Sands Project (AOSP). The AOSP is a joint venture between Shell Canada Energy (Shell), Chevron Canada Limited (Chevron) and Marathon Oil Sands LP (Marathon). Inter Pipeline will receive stable and predictable payments from these shippers on the expanded pipeline system, utilizing the same cost-of-service commercial principles that exist today on the original Corridor pipeline system.

Once the Corridor expansion is completed, an existing 12-inch diluent line will become available for alternative service. Inter Pipeline recently commenced an "open-season" process to solicit non-binding proposals from potential new shippers on this 12-inch pipeline. With the appropriate facility modifications, the 12-inch pipeline has the potential to transport multiple commodity types and can be configured to flow either north or south. Preliminary engineering studies associated with the future development of this pipeline will be completed in 2008.

Inter Pipeline also intends to spend $72 million in organic growth capital in 2008 on the Cold Lake pipeline system. A number of capacity expansion projects are scheduled for this pipeline system to accommodate increased oil sands production from its shippers: Imperial Oil Ltd. (Imperial Oil); EnCana Corporation (EnCana); Canadian Natural Resources Ltd. (CNRL); and Shell. Approximately $50 million of growth capital relates to the installation of quarter-point pump stations to increase capacity on the south mainline from the Cold Lake region to Hardisty, Alberta. The remaining $15 million is to be invested in other facility expansions. With the addition of the new pump stations, bitumen blend capacity on the Cold Lake pipeline system is expected to increase from 435,000 b/d to over 560,000 b/d by the end of 2008.

Organic growth capital projects planned within Inter Pipeline's NGL extraction business segment are expected to total approximately $16 million in 2008. The largest project relates to the previously announced Empress V facility's deep cut initiative. These enhancements at Empress V are anticipated to increase ethane production by approximately 7,000 b/d by the end of 2008. The remaining capital will be directed toward improving operational efficiencies and enhancing liquids recovery at the Cochrane and Empress II facilities.

In the bulk liquids storage business, Inter Pipeline plans to spend approximately $38 million in 2008 on organic growth projects. Roughly $23 million will be invested to construct an additional 318,000 barrels of tankage at its Immingham West terminal located on the eastern coast of the United Kingdom. This new tank construction is in response to an escalating demand for biofuels storage facilities in the European Union. The remaining $15 million will be used to construct additional bulk liquid storage tanks and undertake tank modification projects at Inter Pipeline's other European terminals.

The conventional oil pipelines business segment will undertake a growth capital investment of approximately $8 million in 2008. Capital initiatives include new third party connections and expansion of existing tanks and related facilities.

With respect to the sustainability of Inter Pipeline's cash distributions, in 2007 the Federal Government's "Tax Fairness Plan" became law. As a result, publicly-traded flow-through entities such as income funds, trusts and limited partnerships will be subject to taxation commencing January 1, 2011. There has been considerable debate lately in the investment community and media regarding the sustainability of current cash distributions paid by such entities when they become taxable.

On November 8, 2007 Inter Pipeline announced that it is well positioned to maintain its current level of cash distributions to unitholders, despite becoming fully taxable in 2011. This outlook is supported by attractive fundamentals within each of Inter Pipeline's four business segments, continuing strong financial performance, and a large inventory of organic capital investment opportunities, including the Corridor expansion project. This strong positioning to maintain cash distributions beyond 2010, along with generally more favourable tax treatment of Inter Pipeline's distributions, which will be treated for tax purposes substantially similar to dividends from Canadian public corporations, speaks well to the after tax return a taxable Canadian investor will receive from owning Inter Pipeline units post 2010.

In the NGL extraction business segment, higher than historical frac-spread levels for propane-plus revenues from the Cochrane NGL extraction plant contributed to strong results from this business segment in 2007. Inter Pipeline has hedged a portion of Cochrane's 2008 frac-spread exposure at prices higher than historical levels. This supports the continued strong financial performance from this business segment in the near term. Although there is no certainty that these higher frac-spreads will continue, Inter Pipeline is well positioned to benefit economically from a higher than historical frac-spread environment, and indications in the early part of 2008 are that a favourable frac-spread environment may continue for some time.

The Alberta Energy and Utilities Board is conducting an inquiry into matters related to NGL extraction from the common natural gas streams transported through Alberta Utilities Commission regulated pipeline transmission systems. Of significance to Inter Pipeline is a public interest criterion used to determine the need and timing of NGL processing capacity additions, the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. The oral portion of the inquiry is being held in Calgary and began on February 5, 2008. Inter Pipeline has been and will continue to be an active participant in the process.

In October 2007, the Alberta provincial government released a report titled "The New Royalty Framework" modifying the manner in which royalties will be charged on oil and gas producing properties in Alberta. The royalty plan does not directly impact Inter Pipeline as it has no producing properties. However, this royalty plan may indirectly impact Inter Pipeline's results should the producers and shippers operating in areas serviced by Inter Pipeline decide to take actions, such as reduced capital programs or curtailment of volumes shipped, as a result of the new royalty plan. This impact is tempered substantially by the cost-of-service contracts that are in place in the oil sands transportation business segment.

Both Standard & Poor's and DBRS have assigned an investment grade, long-term corporate credit rating of BBB on Inter Pipeline. Inter Pipeline's 100% owned subsidiary, Inter Pipeline (Corridor) Inc. has been assigned investment grade credit ratings of A (low), A3 and BBB+ from DBRS, Moody's and Standard & Poor's, respectively.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(millions, except per unit and % amounts)	Three Months Ended December 31 2007	Three Months Ended December 31 2006	Years Ended December 31 2007	Years Ended December 31 2006	Years Ended December 31 2005
Revenues					
Oil sands transportation(1)	**$ 38.0**	$ 14.7	**$ 109.0**	$ 58.8	$ 62.7
NGL extraction	**$ 205.2**	$ 186.1	**$ 756.7**	$ 691.8	$ 724.0
Conventional oil pipelines	**$ 31.9**	$ 30.7	**$ 122.8**	$ 116.7	$ 109.9
Bulk liquid storage(2)	**$ 35.7**	$ 43.7	**$ 156.5**	$ 143.7	$ 30.4
Total revenue	**$ 310.8**	$ 275.2	**$ 1,145.0**	$ 1,011.0	$ 927.0
Net income (loss)(1)(2)(3)	**$ 75.9**	$ 28.3	**$ (80.0)**	$ 130.6	$ 89.3
Per unit – basic(1)(2)(3)	**$ 0.37**	$ 0.14	**$ (0.39)**	$ 0.65	$ 0.49
Per unit – diluted(1)(2)(3)	**$ 0.37**	$ 0.14	**$ (0.39)**	$ 0.65	$ 0.48
Funds from operations(1)(2)(4)	**$ 79.5**	$ 47.2	**$ 246.9**	$ 205.4	$ 153.0
Per unit(1)(2)(4)	**$ 0.39**	$ 0.24	**$ 1.21**	$ 1.03	$ 0.84
Cash distributions(6)	**$ 44.0**	$ 42.3	**$ 171.7**	$ 160.8	$ 137.7
Per unit(6)	**$ 0.2100**	$ 0.2100	**$ 0.8400**	$ 0.8000	$ 0.7525
Payout ratio before sustaining capital(1)(4)	**55.4%**	89.7%	**69.5%**	78.3%	90.0%
Payout ratio after sustaining capital(1)(4)	**59.3%**	101.7%	**73.2%**	83.8%	94.2%
Total assets(1)(2)			**$3,549.8**	$ 2,157.1	$ 2,082.4
Long-term debt(1)(2)(5)			**$1,878.8**	$ 674.8	$ 805.8
Convertible debentures			**$ –**	$ 11.7	$ 15.9
Total partners' equity(1)(3)			**$1,064.2**	$ 1,198.4	$ 1,033.1
Units outstanding end of period(6)			**220.9**	201.7	184.6
Total enterprise value(1)(3)(4)			**$3,984.0**	$ 2,510.1	$ 2,676.9

(1) Corridor was acquired on June 15, 2007 therefore only 199 days of revenues and operating expenses were recognized year to date in 2007 and there was a material increase in assets and debt outstanding.

(2) Simon Storage Holdings Ltd. bulk liquid storage business was acquired on October 4, 2005 and Tanklager-Gesellschaft mbH (TLG) on January 1, 2006; therefore, the comparable 2005 annual figures include only 89 days of bulk liquid storage operations. The acquisitions were financed by debt, resulting in an increase in assets and debt outstanding.

(3) The net loss for the year ended December 31, 2007 is primarily a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's "Tax Fairness Plan" effective June 2007. Inter Pipeline recognized an additional $243.8 million future income tax liability. See the **INCOME TAXES** section in **RESULTS OF OPERATIONS** for further details. In addition, on January 1, 2007, Inter Pipeline determined it would be appropriate to discontinue hedge accounting and prospectively adopt the CICA's new Financial Instruments accounting standard for its derivative financial instruments. As a result, Inter Pipeline recorded an unrealized loss of approximately $27.5 million for the year ended December 31, 2007 on its derivative financial instruments.

(4) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(5) Long-term debt in the December 31, 2007 financial statements is $1,878.8 million, which consists of total debt of $1,887.8 million net of discounts and deferred debt transaction costs of $9.0 million.

(6) Cash distributions are calculated based on the number of units outstanding at each record date.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	**2007**	2006	% change	**2007**	2006	% change
Cold Lake (100% basis)	**370.7**	337.6	*9.8*	**347.3**	329.9	*5.3*
Corridor[1]	**154.2**	–	–	**110.4**	–	–
	524.9	337.6	*55.5*	**457.7**	329.9	*38.7*
(millions, except % amounts)						
Revenue[1][2]	**$ 38.0**	$ 14.7	*158.5*	**$ 109.0**	$ 58.8	*85.4*
Operating expenses[1][2]	**$ 11.2**	$ 6.6	*69.7*	**$ 35.8**	$ 21.3	*68.1*
Capital expenditures[1][2]						
Growth[3]	**$ 149.2**	$ 6.0		**$ 318.7**	$ 16.9	
Sustaining[3]	**0.5**	0.2		**0.9**	0.2	
Total capital expenditures	**$ 149.7**	$ 6.2		**$ 319.6**	$ 17.1	

(1) The Corridor pipeline system was acquired on June 15, 2007 therefore only 199 days of revenues and operating expenses were recognized in 2007 and there are no comparable figures. Average volumes represent 199 days of operations and have been prorated over the twelve month period. Since the acquisition of Corridor, average volumes on the Corridor pipeline system have been approximately 202,300 b/d.

(2) The proportion of the Cold Lake pipeline system's revenue, operating expenses and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.

(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

The oil sands transportation business segment involves the transportation of petroleum products and related blending and handling services in northern Alberta which includes the Cold Lake and Corridor pipeline systems.

Inter Pipeline owns an 85% interest in the Cold Lake oil sands pipeline system, a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake area of Alberta to delivery points in the Hardisty and Edmonton areas. The Cold Lake pipeline system is operated pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the founding shippers who have committed to utilizing the pipeline over the term of the agreement. The minimum annual toll revenues are derived from certain take-or-pay provisions of the agreement through to the end of 2011. The Cold Lake TSA provides Inter Pipeline with a structured return on capital invested in certain types of new facilities and provides for the recovery of operating costs over a 20 year contract term.

Similarly, the Corridor pipeline system is an oil sands pipeline system comprised of a bitumen blend and diluent pipeline system that transports diluted bitumen from the Muskeg River mine near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta. Corridor is the sole transporter of diluted bitumen produced by the Athabasca Oil Sands Project owned by Shell (60%), Chevron (20%) and Marathon (20%). The Corridor pipeline system is operated pursuant to a long-term Firm Service Agreement (Corridor FSA). The Corridor FSA is a cost-of-service contract that utilizes a traditional rate base approach to establish the revenue providing for recovery of all operating costs, rate base depreciation, taxes, debt financing costs and provides a return on equity. The initial term of the agreement is 25 years, extending through 2028 with options for further extensions. See Note 3 of the Inter Pipeline's December 31, 2007 **CONSOLIDATED FINANCIAL STATEMENTS** for further details on the acquisition.

See the **DESCRIPTION OF THE BUSINESS** section of the **ANNUAL INFORMATION FORM** for an overview and further details of the oil sands transportation business.

Volumes

Total volumes (100% basis) in the oil sands transportation business increased by approximately 187,300 b/d in the fourth quarter and approximately 127,800 b/d on an annual basis as a result of new volumes from the Corridor acquisition, and increased volumes transported by the shippers on the Cold Lake pipeline system.

Throughput volumes on the Corridor pipeline system consist of volumes transported on the bitumen blend and supplemental feedstock pipelines. Volumes on the Corridor pipeline system have fluctuated since the acquisition of Corridor due to a fire at Shell's Scotford Upgrader in the fourth quarter of 2007. Volumes in 2007 have been further impacted by maintenance activities at the Muskeg River Mine in the third quarter of 2007. As discussed above, Corridor's revenue is governed by the terms of the Corridor FSA which is based on traditional cost-of-service principles; therefore any change in volumes transported do not impact earnings.

Volumes on the Cold Lake pipeline system increased approximately 33,100 b/d and 17,400 b/d respectively, in the fourth quarter and on an annual basis over the comparable periods in 2006. Significant volume increases in the fourth quarter of 2007 are primarily a result of increased volumes transported by two of the three Cold Lake founding shippers. Transportation services to Shell's Orion oil sands project, a new shipper on the Cold Lake pipeline system, commenced in October 2007.

Revenue

Corridor contributed approximately $20.0 million of the $23.3 million growth in revenues in the fourth quarter of 2007 and $46.5 million of the $50.2 million growth on an annual basis.

The annual minimum ship-or-pay commitment under the Cold Lake TSA is $27.8 million annually to the end of December 2011 based on Inter Pipeline's 85% ownership interest ($32.7 million - 100% basis). Capital fees under this commitment are collected in excess of actual volumes shipped until certain ship-or-pay thresholds are achieved by each shipper. Inter Pipeline receives additional capital fees for volumes shipped over and above the take-or-pay amounts. Additional facility construction on the Cold Lake pipeline system produces an additional return on the capital invested and recovery of associated operating costs, under the terms of the Cold Lake TSA.

Revenues attributable to the Cold Lake pipeline system increased approximately $3.3 million in the fourth quarter of 2007 and approximately $3.7 million on an annual basis when compared to the same periods in 2006. Revenue increases in both periods are primarily increases in capital fee revenues due to the volume increases discussed above.

Operating Expenses

As noted above, substantially all of the operating costs are flowed through to the shippers on the Corridor and Cold Lake pipeline systems; therefore, most of these costs have no impact on Inter Pipeline's earnings.

On an annual basis, approximately $13.7 million of the $14.5 million increase in operating expenses in the oil sands transportation segment is attributable to Corridor's operations, when compared to 2006. Similarly, Corridor accounted for approximately $5.3 million of the $4.6 million increase in fourth quarter operating costs.

Cold Lake operating expenses increased $0.8 million for the year and decreased $0.7 million in the fourth quarter compared to the same periods last year. The increase in annual operating costs is primarily attributable to increases in right-of-way maintenance, property tax increases and other usual operating costs. The $0.7 million decline in operating expenses in the fourth quarter of 2007 is primarily due to declines in Alberta power pool prices.

Capital Expenditures

In 2007, approximately $289.7 million of Inter Pipeline's total $363.9 million of growth capital expenditures was expended on the Corridor expansion project. Similarly, in the fourth quarter of 2007, approximately $142.9 million of the total $149.2 million of the oil sands transportation business segment's growth capital expenditures were attributable to this project. Significant progress was made on the Corridor expansion project in the fourth quarter, which remains on schedule and on budget. At the end of 2007, approximately 53% of the 42-inch pipeline has been successfully installed. While no additional pipe was installed in the fourth quarter, preparation commenced for the critical 2008 winter pipeline construction season. On the facility side, construction on the new pump stations continued throughout the quarter with civil work being completed and structural activities commencing.

The $1.8 billion Corridor expansion project is comprised of two distinct cost components. The first is the pipeline and facility component which is the component wherein Inter Pipeline is exposed to potential cost overruns. At December 31, 2007, approximately 80% of the costs associated with this component of the project have either been expended or committed. This high percentage of committed costs for the pipeline and facility component speaks well to the limited construction price risk Inter Pipeline is exposed to. The second component is for items such as additional storage tanks, interest during construction, linefill requirements and certain contingency cost factors. There is no risk to Inter Pipeline for this component of the project as these items will be included in the rate base at their actual cost.

Final construction costs associated with the connection of the new Shell Orion project to the Cold Lake pipeline system, which became operational on October 1, 2007, were approximately $1.7 million in the fourth quarter of 2007 for a total of $10.6 million spent on the project in 2007. Engineering and procurement of long-lead items for an expansion of the south leg of the Cold Lake pipeline system were approximately $3.9 million in the fourth quarter of 2007 for a total of $5.1 million expended on this project in 2007. Expenditures related to expansion of miscellaneous pumping facilities on the Cold Lake pipeline accounted for the remaining $0.7 million of growth capital expenditures in the fourth quarter and most of the remaining $13.3 million of annual growth capital expenditures in this business segment.

Sustaining capital expenditures in 2007 primarily consisted of expenditures to transition Corridor's remote monitoring system as well as expenditures on a noise reduction project at a terminal on the Cold Lake pipeline system.

NGL EXTRACTION BUSINESS SEGMENT

Three Months Ended December 31

	2007				2006			
	Mmcf/d	*(000s b/d)*			*Mmcf/d*	*(000s b/d)*		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	**2,203**	**54.8**	**33.0**	**87.8**	1,868	49.9	27.6	77.5
Empress V (100% basis)	**1,025**	**14.5**	**11.7**	**26.2**	992	14.9	11.1	26.0
Empress II	**961**	**17.5**	**11.1**	**28.6**	1,318	24.1	14.9	39.0
Total	**4,189**	**86.8**	**55.8**	**142.6**	4,178	88.9	53.6	142.5

	2007				Years Ended December 31 2006			
	Mmcf/d	(000s b/d)			Mmcf/d	(000s b/d)		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	**1,898**	**50.1**	**29.9**	**80.0**	1,714	48.1	25.4	73.5
Empress V (100% basis)	**1,039**	**14.9**	**11.9**	**26.8**	990	14.5	11.2	25.7
Empress II	**1,369**	**25.0**	**15.7**	**40.7**	1,455	26.6	16.3	42.9
Total	**4,306**	**90.0**	**57.5**	**147.5**	4,159	89.2	52.9	142.1

	Three Months Ended December 31			Years Ended December 31		
(millions, except % amounts)	**2007**	2006	% change	**2007**	2006	% change
Revenue[1]	**$ 205.2**	$ 186.1	*10.3*	**$ 756.7**	$ 691.8	*9.4*
Shrinkage gas[1]	**$ 120.0**	$ 110.9	*8.2*	**$ 461.9**	$ 422.8	*9.2*
Operating expenses[1]	**$ 34.5**	$ 49.7	*(30.6)*	**$ 149.2**	$ 157.8	*(5.4)*
Capital expenditures[1]						
Growth[2]	**$ 8.4**	$ 2.6		**$ 11.3**	$ 7.1	
Sustaining[2]	**1.1**	1.7		**3.4**	2.7	
Total capital expenditures	**$ 9.5**	$ 4.3		**$ 14.7**	$ 9.8	

(1) Revenue, shrinkage, operating expenses and capital expenditures of the Empress V NGL extraction facility are recorded on a 50% ownership basis.

(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

Inter Pipeline's NGL extraction business consists of a 100% ownership interest in the Cochrane and Empress II extraction facilities and a 50% ownership interest in the Empress V extraction facility. The Empress II, Empress V and Cochrane facilities are located on the eastern and western legs of the TransCanada Alberta pipeline system near export points from Alberta. NGL extraction facilities recover certain higher value hydrocarbons, such as ethane, propane, butane and pentanes-plus, from natural gas for sale in liquid form. The NGL extraction business has three types of NGL sales contracts with three main counterparties – Dow Chemical, NOVA Chemicals and BP Canada. These contracts include cost-of-service, fee-based and commodity based arrangements and have an average remaining term of approximately 11 years. A significant portion of earnings from the NGL extraction business is generated from cost-of-service and fee-based contracts.

Cost-of-service contracts provide for a payment representing a fixed capital charge, plus recovery of operating costs, including shrinkage gas. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure. This type of contract also provides for a structured return on new capital invested utilizing a rate base approach.

Fee-based contracts provide for a fixed fee associated with each barrel of NGL produced, plus recovery of operating costs, including shrinkage gas costs. There is no commodity price exposure associated with this type of contract.

Commodity based contracts provide for a sharing of profits from the sale of NGL between the NGL extraction business and the purchaser. Included in the profit share calculation are costs of bringing the NGL to market, including extraction, shrinkage gas, fractionation and marketing costs. The return to Inter Pipeline from profit sharing contracts is affected by frac-spread and volume.

See the **DESCRIPTION OF THE BUSINESS** section of the **ANNUAL INFORMATION FORM** for an overview and further details of the NGL extraction business.

Volumes

Inter Pipeline's three NGL extraction plants processed a combined 4,189 million cubic feet per day (mmcf/d) of natural gas for the three months ended December 31, 2007. This is approximately 11.0 mmcf/d higher than in the comparative period of 2006 due to increased gas throughput at the Cochrane and Empress V plants offset by declined throughput at the Empress II plant. Throughput volumes at the Empress II extraction plant decreased due to a decline in overall volumes delivered out of the province at the eastern gate at Empress. As a result, the NGL extraction facilities produced a similar volume of NGL in the fourth quarter when compared to 2006.

Annually, gas throughput volumes increased 147 mmcf/d and NGL production increased by 5,400 b/d over 2006. The increased volumes are primarily due to weather and electrical generation driven natural gas demand increases in California and the U.S. Pacific Northwest, resulting in higher gas throughputs at the Cochrane plant.

Frac-spread

				Three Months Ended December 31
(actual)		**2007**		2006
	USD/USG	CDN/USG	USD/USG	CDN/USG
Market frac-spread	**$ 1.036**	**$ 1.018**	$ 0.491	$ 0.559
Realized frac-spread	**$ 0.763**	**$ 0.749**	$ 0.396	$ 0.451

				Years Ended December 31
(actual)		**2007**		2006
	USD/USG	CDN/USG	USD/USG	CDN/USG
Market frac-spread	**$ 0.717**	**$ 0.752**	$ 0.526	$ 0.594
Realized frac-spread	**$ 0.590**	**$ 0.622**	$ 0.458	$ 0.518

The NGL extraction business segment earns revenue from a combination of cost-of-service, fee-based and commodity based contracts. Under cost-of-service and fee-based contracts, there is no exposure to commodity price risk. Inter Pipeline's only frac-spread risk applies to its commodity based contract for propane-plus volumes sold at the Cochrane plant.

Market frac-spread is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is translated to Canadian dollars per US gallon (CDN/USG) based on the average monthly Bank of Canada CDN/USD rate. Inter Pipeline hedges a portion of its anticipated cash flow to mitigate exposure to frac-spread volatility. The realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using the market frac-spread for unhedged production and the fixed-priced frac-spread for hedged production. See the **FINANCIAL INSTRUMENTS** section for further discussion of the hedged frac-spreads at December 31, 2007.

Comparatively, the realized frac-spreads indicated in the table above are significantly higher than the 15-year and the 3-year annual historical simple average market frac-spreads to December 31, 2007 of $0.275 USD/USG and $0.511 USD/USG, respectively.

Revenue

In the fourth quarter of 2007, the NGL extraction business generated $19.1 million more revenue when compared to the fourth quarter of 2006. This increase in revenue is due to the higher natural gas throughput volumes at the extraction plants, offset by lower cost recoveries under the cost-of-service and fee-based contracts. Inter Pipeline recovers a significant portion of its shrinkage and fuel gas costs through its cost-of-service or fee-based product sale contracts, which is recognized as revenue. In the fourth quarter of 2007, cost recovery revenue was lower due to the lower cost of shrinkage, fuel gas and power over the same period in 2006.

Annually, the NGL extraction business generated approximately $64.9 million of additional revenue as compared to the same period in 2006. The revenue increase is primarily a result of stronger propane-plus prices and volume throughput at the Cochrane plant when compared to the same period in 2006.

Shrinkage
Shrinkage gas expense increased $9.1 million in the fourth quarter of 2007 compared to the same period in 2006. Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of the liquids extracted from the natural gas processed at the NGL extraction plants. This increase in cost is directly associated with the increased volumes of shrinkage gas purchased due to the increased production of NGL. A decrease in the price of Alberta natural gas purchased for shrinkage gas at the NGL extraction plants offset a portion of the increase in shrinkage gas expense during the fourth quarter. The price for shrinkage gas is based on a combination of daily and monthly index AECO prices for natural gas. The weighted average monthly AECO price was $5.69 per gigajoule (GJ) in the fourth quarter of 2007, which is approximately 5.6% lower than the weighted average price of $6.03 per GJ in the fourth quarter ended December 31, 2006.

Annually, shrinkage gas expense increased $39.1 million when compared to the same period in 2006 as a result of higher NGL production throughout the year. This increase was partially offset by an overall annual decline in AECO prices. The weighted average monthly AECO price of $6.26 per GJ in 2007 was approximately 5.4% lower than the weighted average price of $6.62 per GJ in 2006.

Operating Expenses
Fuel and power costs, which accounted for 72.1% of operating costs in the fourth quarter of 2007, were $24.9 million compared to $41.3 million for the same period in 2006. This decrease in cost is primarily due to the decrease in natural gas prices as described in the ***Shrinkage*** section above offset by the increased volume of gas processed and NGL produced at the plants. Lower natural gas costs were complemented by lower average Alberta power pool prices. The average power pool price for the fourth quarter of 2007 was $61.84 per megawatt hour (MWh) as compared to $116.94/MWh in the fourth quarter of 2006.

There were similar trends in fuel and power costs on an annual basis. Overall, fuel and power costs decreased $12.4 million from $125.1 million in 2006 to $112.7 million in 2007. This decrease in costs is primarily due to a significant decrease in Alberta power pool prices offset by the increased volume of gas processed and NGL produced at the NGL extraction facilities. Natural gas price decreases were complemented by declines in average Alberta power pool prices from $80.77/MWh in 2006 to $66.95/MWh in 2007.

Capital Expenditures
Approximately $8.0 million (Q4 2007 – $5.1 million) of annual growth capital expenditures in 2007 related to the Empress V ethane recovery improvement project and the remaining $3.3 million was expended on safety and mechanical upgrades at Empress II, primarily in the fourth quarter of 2007.

Sustaining capital expenditures in 2007 of $3.4 million (Q4 2007 – $1.1 million) consisted primarily of the installation of updated process controls at the Cochrane plant.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	**2007**	2006	% change	**2007**	2006	% change
Bow River	**131.8**	150.6	*(12.5)*	**135.6**	144.2	*(6.0)*
Central/Valley/Mid-Saskatchewan	**74.4**	72.5	*2.6*	**73.3**	67.7	*8.3*
	206.2	223.1	*(7.6)*	**208.9**	211.9	*(1.4)*
(millions, except per barrel and % amounts)						
Revenue	**$ 31.9**	$ 30.7	*3.9*	**$ 122.8**	$ 116.7	*5.2*
Operating expenses	**$ 9.7**	$ 10.0	*(3.0)*	**$ 38.6**	$ 36.8	*4.9*
Revenue per barrel	**$ 1.68**	$ 1.49	*12.8*	**$ 1.61**	$ 1.51	*6.6*
Capital expenditures						
Growth[1]	**$ 0.7**	$ 1.6		**$ 6.0**	$ 13.9	
Sustaining[1]	**1.1**	0.4		**3.2**	1.8	
Total capital expenditures	**$ 1.8**	$ 2.0		**$ 9.2**	$ 15.7	

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

The conventional oil pipelines business includes the Bow River, Central Alberta, Mid-Saskatchewan and Valley pipeline systems located in Alberta and Saskatchewan. The majority of petroleum volumes are transported on these conventional gathering systems under short-term contracts with fixed tolling arrangements and no specific volume commitments. See the **DESCRIPTION OF THE BUSINESS** section of the **ANNUAL INFORMATION FORM** for an overview and further details of the conventional oil pipelines business.

Volumes

Conventional oil pipeline volumes declined by approximately 16,900 b/d in the fourth quarter of 2007 when compared to the same period in 2006. The declines are primarily a result of natural volume declines and new oil blending practises on the Bow River pipeline system which resulted in heavier, more viscous oil blends being shipped from Hardisty, Alberta to refining markets in the northwest United States. New connections and increased truck terminal activity resulted in an increase in volumes on the other conventional oil pipeline systems. Reduction in throughput volumes has been offset by tariff increases as noted in the ***Revenue*** section.

Annual volumes in 2007 were approximately 3,000 b/d lower than in 2006 primarily due to natural declines in the areas serviced by these pipeline systems. A portion of the decline has been offset by growth initiatives such as new third party connections and pipeline blending initiatives.

Revenue

Revenue in the fourth quarter of 2007 was relatively consistent with the same period in 2006. Volume declines discussed above were offset by tariff increases and mainline toll increases averaging 6% and 3% that were effective January 1 and July 1, 2007, respectively. Effective January 1, 2008, mainline tolls increased approximately 6%.

Despite lower volumes, annual revenues increased approximately $6.1 million when compared to 2006 primarily due to the tariff and mainline toll increases described above.

Operating Expenses

Annual operating expenses increased approximately $1.8 million when compared to 2006 due to increases in labour costs, property taxes and other routine maintenance expenses. Operating expenses in the fourth quarter of 2007 were relatively consistent with 2006.

Capital Expenditures

Growth capital expenditures of approximately $6.0 million included the construction of new blending facilities on the Bow River and Central Alberta pipeline systems. Approximately $0.7 million of this was spent on new third party connections and flow control enhancements on the Central Alberta pipeline during the fourth quarter of 2007.

Sustaining capital expenditures of $3.2 million in 2007 included spending to replenish equipment spares and other normal maintenance projects (Q4 2007 – $1.1 million).

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
(millions, except % amounts)	**2007**	2006	% change	**2007**	2006	% change
Utilization	**95.5%**	96.8%	*(1.3)*	**96.2%**	95.3%	*0.9*
Revenue	**$ 35.7**	$ 43.7	*(18.3)*	**$ 156.5**	$ 143.7	*8.9*
Operating expenses	**$ 22.8**	$ 30.0	*(24.0)*	**$ 99.4**	$ 93.3	*6.5*
Capital expenditures						
Growth[1]	**$ 9.3**	$ 4.6		**$ 27.9**	$ 14.1	
Sustaining[1]	**2.5**	3.3		**4.7**	8.9	
Total capital expenditures	**$ 11.8**	$ 7.9		**$ 32.6**	$ 23.0	

[1] Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

The bulk liquid storage business consists of a 100% ownership interest in Simon Storage Limited (Simon Storage) and its subsidiaries. Simon Storage owns and operates nine deep water bulk liquid storage terminals located in the United Kingdom (UK), Germany and Ireland. These terminals, with a combined capacity of approximately 7.9 million barrels, store and handle petroleum and petrochemical products in support of local industries. Typical storage contracts contain a combination of term rental and throughput based revenues and range in length from under one year up to 20 years. In addition to storage and handling services, Simon Storage offers a range of complementary services to its customers through its bulk liquid trucking, engineering, training and facilities management divisions. See the **DESCRIPTION OF THE BUSINESS** section of the **ANNUAL INFORMATION FORM** for an overview and further details of the bulk liquid storage business.

Utilization

Utilization rates continued to be strong, both annually (96.2%) and in the fourth quarter (95.5%) as demand for oil products storage across Northwest Europe continues to exceed supply. This is further supported in the UK by the continued development of the biofuels sector. The small reduction in utilization in the fourth quarter is primarily a result of the demolition of six older storage tanks in preparation for new tank construction at the Immingham terminal. The full year statistics include the construction of three new tanks at the Seal Sands terminal and two smaller tanks at the Tyne terminal. In 2007, overall storage capacity increased by 4,000 barrels.

Revenue

Annual revenue increased approximately $12.8 million when compared to 2006. Of this increase, $8.8 million is due to increased utilization and higher storage rates and $3.4 million is a result of foreign currency translation to Canadian currency. Ancillary business revenue from the engineering, facilities management and trucking businesses in 2007 was relatively consistent with the prior year.

In the fourth quarter of 2007, overall revenue was approximately $8.0 million lower when compared to the same period in 2006. The majority ($5.9 million) of this revenue decline is due to lower activity levels within certain contracts in Simon Storage's ancillary businesses when compared to the fourth quarter of 2006. Foreign currency translation resulted in a further $3.7 million decline in revenue. Despite the overall decline, the core storage and handling business generated additional revenues of approximately $1.8 million of which approximately $1.2 million resulted from the completion of a biofuels tankage project for Greenergy Biofuels Limited (Greenergy).

Operating Expenses

Annual operating expenses increased by approximately $6.1 million when compared to 2006. Approximately $2.1 million of this increase relates to increases in overall activity levels and rechargeable costs in the storage and handling business. Foreign currency translation resulted in a further $2.1 million comparative increase in operating expenses. The remaining $1.9 million increase is related to the ancillary businesses and other operating activities.

Approximately $2.6 million of the $7.2 million decrease in operating expense in the fourth quarter of 2007 is a result of the foreign currency translation. As above, lower activity levels within certain engineering contracts in Simon Storage's ancillary businesses further decreased costs by approximately $5.9 million. Labour, power and other operating costs comparatively increased by approximately $1.5 million during the fourth quarter.

Capital Expenditures

Approximately $8.0 million of the $27.9 million of total bulk liquid storage growth capital expenditures in 2007 relate to a second Greenergy project at the Immingham West terminal, which is on schedule for completion in May 2008. The first Greenergy project is now effectively complete (the biodiesel plant now having achieved full production). An additional $4.8 million relates to three tank modifications and new tank construction projects at the Seal Sands terminal, with the remaining $15.1 million of growth capital expenditures related to a number of other smaller modification projects at the Immingham and Seal Sands terminals.

Annual sustaining capital expenditures consisted of a variety of small projects relating to improvements in health and safety and infrastructure maintenance.

OTHER EXPENSES

	Three Months Ended December 31			Years Ended December 31		
(millions, except % amounts)	**2007**	2006	% change	**2007**	2006	% change
Depreciation and amortization	**$ 27.0**	$ 17.8	*51.7*	**$ 87.1**	$ 69.9	*24.6*
Financing charges	**20.0**	9.9	*102.0*	**61.9**	39.9	*55.1*
General and administrative	**10.0**	9.4	*6.4*	**35.1**	28.7	*22.3*
Unrealized change in fair value of derivative financial instruments	**3.4**	–	*n/a*	**27.5**	–	*n/a*
Management and acquisition fees to General Partner	**2.1**	1.2	*75.0*	**17.5**	5.4	*224.1*
Unit incentive options	**–**	–	–	**–**	0.2	*(100.0)*
Income taxes (recovery)	**(25.8)**	1.4	*n/a*	**210.9**	4.3	*n/a*

Depreciation and Amortization

Increases in depreciation and amortization of operating and intangible assets are primarily attributable to the addition of Corridor assets in June 2007 and Inter Pipeline's 2007 and 2006 capital expenditure programs.

Financing Charges

(millions)	Three Months Ended December 31 2007	2006	Years Ended December 31 2007	2006
Credit facilities interest expense	**$ 16.9**	$ 3.8	**$ 40.7**	$ 15.2
Interest on loan payable to General Partner	**5.8**	5.8	**23.1**	23.1
Debentures interest expense	**4.1**	0.3	**9.5**	1.4
Cash related financing charges	**26.8**	9.9	**73.3**	39.7
Capitalized interest	**(7.0)**	–	**(12.1)**	–
Amortization of long-term debt transaction costs	**0.2**	–	**0.7**	0.2
Total financing charges	**$ 20.0**	$ 9.9	**$ 61.9**	$ 39.9

Financing the acquisition of Corridor and its ongoing pipeline expansion project in the latter half of 2007 resulted in a significant increase of Inter Pipeline's credit facilities interest expense. Approximately $12.1 million of the interest expense attributable to the pipeline expansion was capitalized along with other related capital expenditures. The weighted average principal outstanding on the credit facilities increased approximately $492.9 million from $299.3 million in 2006 to $792.2 million in 2007. Interest rates on Inter Pipeline and Corridor's credit facilities are generally variable rates however approximately $44 million of variable rate debt outstanding was exchanged to fixed rates of 6.3% in prior years through interest rate swap agreements.

Interest expense on the $379.8 million loan payable to the General Partner is consistent with the same periods in 2006 due to the fixed rate of interest on the loan and no change in the principal balance during the year.

Debenture interest expense increased approximately $8.1 million in 2007 with the assumption of $300 million of 4.24% and 5.03% fixed rate Series A and B debentures in the Corridor acquisition. While the interest rates on these debentures are fixed rates, Inter Pipeline also assumed interest rate swap agreements that exchange the fixed rates to variable rates. The remaining outstanding 10% convertible debentures issued in 2002 matured on December 31, 2007.

See the **LIQUIDITY AND CAPITAL RESOURCES** section for further information about Inter Pipeline's debt facilities and the **FINANCIAL INSTRUMENTS** section for further information about Inter Pipeline's interest rate swaps.

General and Administrative

(millions)	Three Months Ended December 31 2007	2006	Years Ended December 31 2007	2006
Canada	**$ 7.4**	$ 6.3	**$ 24.0**	$ 18.1
Europe	**2.6**	3.1	**11.1**	10.6
Total general and administrative expenses	**$ 10.0**	$ 9.4	**$ 35.1**	$ 28.7

In Canada, general and administrative expenses increased approximately $1.1 million in the fourth quarter of 2007 and approximately $5.9 million during the year primarily due to an increase in employee costs when compared to the same periods in 2006. Inter Pipeline also added to its complement of employees and incurred additional administrative costs as a result of the acquisition of Corridor.

In Europe, general and administrative expenses declined approximately $0.5 million in the fourth quarter of 2007 however, increased annually by approximately $0.5 million when compared to the same periods in 2006. Approximately $0.3 million of both of these variances relates to an unrealized foreign currency translation adjustment for reporting these operations in Canadian currency.

Unrealized Change in Fair Value of Derivative Financial Instruments

Effective January 1, 2007, Inter Pipeline elected to discontinue hedge accounting for its derivative financial instruments outstanding at January 1, 2007. Concurrently, Inter Pipeline prospectively adopted the Canadian Institute of Chartered Accountants' (CICA) new handbook section 3855: Financial Instruments – Recognition and Measurement, whereby all derivative financial instruments are required to be measured at fair value each reporting period. As a result, any unrealized gains or losses resulting from this remeasurement of Inter Pipeline's derivative financial instruments are reported as an unrealized gain or loss in net income. See the **CHANGES IN ACCOUNTING POLICIES** section for further discussion of these changes in accounting policies.

Management and Acquisition Fees

The General Partner was paid a management fee of $2.1 million (Q4 2006 – $1.2 million) in the fourth quarter of 2007 for a total of $6.6 million (2006 – $5.1 million) during the year. This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement).

Pursuant to the terms of the Partnership Agreement, an acquisition fee of $10.9 million was incurred in 2007 (2006 – $0.4 million) related to the Corridor acquisition.

Income Taxes

In June 2007, the Government of Canada substantively enacted new legislation imposing additional income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline, effective January 1, 2011. Prior to June 2007, Inter Pipeline estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate, related to the consolidated entities that were not corporations. Under the legislation, Inter Pipeline estimated in the second quarter of 2007 that the effective tax rate on the post 2010 reversal of the temporary differences would be 31.5% . This is comprised of the federal general rate of 18.5% and provincial "specified investment flow-through" (SIFT) factor of 13.0%. Temporary differences reversing before 2011 still will give rise to nil future income taxes. Based on its consolidated assets and liabilities at June 30, 2007, Inter Pipeline estimates the amount of its temporary differences and the prospective periods in which these differences will reverse. Inter Pipeline estimates that $774.1 million of net taxable temporary differences, not previously subject to income tax, will reverse after January 1, 2011, resulting in the recognition of an additional $243.8 million[1] future income tax liability. The taxable temporary differences relate principally to the excess of net book value of property, plant and equipment and intangible assets over the remaining tax values attributable thereto.

On October 30, 2007, the Government of Canada announced further reductions to the federal general rate that was enacted into law in December 2007. This legislation reduced the federal general rate from 18.5% to 16.5% and 15.0% effective January 1, 2011 and January 1, 2012, respectively, which reduced Inter Pipeline's estimated effective tax rate to 29.5% and 28.0% in the respective periods. As a result of this rate reduction, future tax liabilities of Inter Pipeline's Canadian entities, excluding Corridor were reduced by $26.4 million.

Corridor is a taxable Canadian corporation, thus its profits are subject to corporate tax. Corridor's combined federal and provincial effective tax rate of 32.12% for 2007 is a combination of the 22.12% federal general rate and 10% Alberta provincial rate. As noted above, the Government of Canada's reductions to the federal general rate will also reduce Corridor's effective tax rate to 25.0% effective January 1, 2012. As a result of this tax rate reduction, Corridor's estimated future tax liabilities were reduced by $6.9 million.

[1] During the fourth quarter of 2007, Inter Pipeline recalculated the estimate for the SIFT tax reported in the second quarter of 2007. The recalculation resulted in a $7.6 million increase in the SIFT tax liability as at June 30, 2007 from $236.2 million to $243.8 million.

In the bulk liquid storage business segment, recent tax legislative changes in Europe also impacted future income taxes. In Germany, tax legislation passed which aligns German income tax rates closer to the other European Union members, reducing the effective income tax rate from 39.00% to 30.35%, effective January 1, 2008. The effect of recognizing this change in German income tax rates was a $4.5 million reduction in future income tax liabilities. Similarly, in the UK, recent legislative changes will result in income tax rates declining from 30.0% to 28.0% effective April 1, 2008 which reduced future income tax liabilities by a further $3.8 million. The overall impact of the lower tax rates resulted in an $8.3 million decrease in future income tax liabilities.

SUMMARY OF QUARTERLY RESULTS

	2006				**2007**			
(millions, except per unit and % amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Oil sands transportation[1]	$ 13.9	$ 15.3	$ 14.9	$ 14.7	**$ 14.0**	**$ 17.8**	**$ 39.2**	**$ 38.0**
NGL extraction	$ 195.5	$ 133.0	$ 177.1	$ 186.1	**$ 196.8**	**$ 178.5**	**$ 176.2**	**$ 205.2**
Conventional oil pipelines	$ 28.7	$ 27.1	$ 30.2	$ 30.7	**$ 30.9**	**$ 29.8**	**$ 30.2**	**$ 31.9**
Bulk liquid storage	$ 31.6	$ 34.3	$ 34.1	$ 43.7	**$ 42.4**	**$ 39.4**	**$ 38.9**	**$ 35.7**
Net income (loss)[1][2]	$ 29.1	$ 30.8	$ 42.4	$ 28.3	**$ 24.5**	**$(215.5)**	**$ 35.1**	**$ 75.9**
Per unit – basic[1][2]	$ 0.15	$ 0.15	$ 0.21	$ 0.14	**$ 0.12**	**$ (1.06)**	**$ 0.18**	**$ 0.37**
Per unit – diluted[1][2]	$ 0.15	$ 0.15	$ 0.21	$ 0.14	**$ 0.12**	**$ (1.06)**	**$ 0.18**	**$ 0.37**
Funds from operations[1][3]	$ 47.9	$ 48.8	$ 61.5	$ 47.2	**$ 54.8**	**$ 45.0**	**$ 67.6**	**$ 79.5**
Per unit[1][3]	$ 0.25	$ 0.24	$ 0.31	$ 0.24	**$ 0.27**	**$ 0.22**	**$ 0.34**	**$ 0.39**
Cash distributions[4]	$ 39.0	$ 39.2	$ 40.3	$ 42.3	**$ 42.4**	**$ 42.6**	**$ 42.7**	**$ 44.0**
Per unit[4]	$ 0.195	$ 0.195	$ 0.200	$ 0.210	**$ 0.210**	**$ 0.210**	**$ 0.210**	**$ 0.210**
Payout ratio before sustaining capital[3]	81.5%	80.2%	65.4%	89.7%	**77.4%**	**94.5%**	**63.1%**	**55.4%**
Payout ratio after sustaining capital[3]	84.4%	84.6%	69.7%	101.7%	**79.6%**	**101.5%**	**65.5%**	**59.3%**
Units outstanding								
Weighted average	194.7	200.7	201.2	201.6	**202.0**	**202.6**	**203.1**	**205.8**
End of period	200.4	200.9	201.4	201.7	**202.3**	**202.8**	**203.3**	**220.9**

(1) Inter Pipeline acquired Corridor on June 15, 2007.

(2) The net loss for the second quarter of 2007 was primarily due to the recognition of a non-cash expense for future income taxes recognized as a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's "Tax Fairness Plan" effective June 2007. The second quarter net loss and per unit amounts have been restated. See the **INCOME TAXES** section in **RESULTS OF OPERATIONS – OTHER EXPENSES** for further details.

(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(4) Cash distributions are calculated based on the number of units outstanding at each record date.

LIQUIDITY AND CAPITAL RESOURCES

(millions, except for % amounts)	As at December 31 2007	2006
Adjusted working capital (deficiency)[1]	**$ (21.0)**	$ 13.0
Credit facilities available		
Corridor syndicated facility (non recourse tranches)	**$ 1,654.0**	$ –
Corridor syndicated facility (recourse tranches)	**488.0**	–
Total Corridor syndicated facility	**2,142.0**	–
Inter Pipeline revolving facility (recourse)	**750.0**	500.0
Inter Pipeline demand loan facility (recourse)	**20.0**	20.0
Corridor demand loan facility (non recourse)	**40.0**	–
Total credit facilities available	**2,952.0**	520.0
Unutilized credit facilities	**(1,744.0)**	(225.0)
Credit facilities outstanding[2]	**1,208.0**	295.0
Corridor debentures (non-recourse)	**300.0**	–
Less variable rate debt swapped to fixed rate	**(44.0)**	(45.0)
Total outstanding variable rate debt	**1,464.0**	250.0
Fixed rate debt		
Loan payable to General Partner (recourse)	**379.8**	379.8
Convertible debentures (recourse)[3]	**–**	12.2
Add variable rate debt swapped to fixed	**44.0**	45.0
Total outstanding fixed rate debt	**423.8**	437.0
Total debt[1][3]	**$ 1,887.8**	$ 687.0
Total debt to total capitalization[1]	**64.0%**	36.4%
Total recourse debt to capitalization[1]	**44.3%**	36.4%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(2) Outstanding letters of credit were approximately $3.7 million which are not included in the total credit facilities outstanding as at December 31, 2007.

(3) Long-term debt in the December 31, 2007 consolidated financial statements was $1,878.8 million, which consists of total debt of $1,887.8 million net of discounts and deferred debt transaction costs of $9.0 million. Long-term debt does not include convertible debentures which matured December 31, 2007.

At December 31, 2007, Inter Pipeline's consolidated debt balance was $1,887.8 million which includes amounts drawn on a new $2,142.0 million syndicated credit facility and $40.0 million demand operating facility entered into to finance Corridor's operations and its pipeline expansion project. Inter Pipeline also expanded the size of its existing revolving credit facility by $250 million to $750 million to partially finance the Corridor acquisition.

Of the $1,887.8 million of total debt outstanding at December 31, 2007, $1,464.0 million or 77.6% was exposed to a period ending variable interest rate (including respective fees) of 5.10%. The remaining $423.8 million or 22.4% is fixed term debt with rates ranging from 5.85% to 6.31%.

On December 7, 2007, Inter Pipeline entered into an agreement to sell 15.3 million Class A limited partnership units at $9.80 per Class A unit for gross proceeds of $150.0 million. The offering was made on a bought deal basis through a syndicate of underwriters. The offering closed on December 20, 2007. Net proceeds from this unit offering were used to reduce Inter Pipeline's long-term debt.

Inter Pipeline's commitments and contractual obligations due in the next five years and thereafter are as follows:

(millions)	Total	Less Than One Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt					
Credit facilities	$ 1,208.0	$ –	$ 56.2	$ 1,151.8	$ –
Loan payable to General Partner	379.8	–	–	91.2	288.6
Corridor debentures	300.0	–	150.0	–	150.0
Capital expenditure projects					
Corridor expansion project	1,181.3	866.0	315.3	–	–
Empress V optimization project	10.6	10.6	–	–	–
Operating leases	83.2	6.7	17.6	10.8	48.1
Total obligations	$ 3,162.9	$ 883.3	$ 539.1	$ 1,253.8	$ 486.7

As discussed in the **OUTLOOK** section, including the two capital projects noted in the table above, Inter Pipeline announced that it plans to invest approximately $1.0 billion in capital projects in 2008.

On June 15, 2007, pursuant to the Corridor FSA, Inter Pipeline entered into a guarantee in favour of the Corridor shippers for the payment and performance of all obligations of Inter Pipeline (Corridor) Inc., the General Partner or the operator (if the operator was not Inter Pipeline). This guarantee does not include those obligations for repayment of borrowed money or similar financial obligations incurred by these entities (except for funding certain cost overruns). The guarantee may be exercised in the event that Inter Pipeline (Corridor) Inc., the General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason.

CASH DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended December 31		Years Ended December 31	
(millions, except per unit and % amounts)	**2007**	2006	**2007**	2006
Cash provided by operating activities	**$ 67.8**	$ 44.3	**$ 234.1**	$ 201.6
Net change in non-cash working capital	**11.7**	2.9	**12.8**	3.8
Less sustaining capital expenditures[1]	**(5.2)**	(5.6)	**(12.2)**	(13.6)
Cash available for distribution[1]	**74.3**	41.6	**234.7**	191.8
Change in discretionary reserves	**(30.3)**	0.7	**(63.0)**	(31.0)
Cash distributions [2]	**$ 44.0**	$ 42.3	**$ 171.7**	$ 160.8
Cash distributions per unit[2]	**$ 0.21**	$ 0.21	**$ 0.84**	$ 0.80
Payout ratio before sustaining capital[1]	**55.4%**	89.7%	**69.5%**	78.3%
Payout ratio after sustaining capital[1]	**59.3%**	101.7%	**73.2%**	83.8%
Growth capital expenditures[1]	**$ 167.6**	$ 14.8	**$ 363.9**	$ 52.0
Sustaining capital expenditures[1]	**5.2**	5.6	**12.2**	13.6
Total capital expenditures	**$ 172.8**	$ 20.4	**$ 376.1**	$ 65.6

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(2) Cash distributions are calculated based on the number of units outstanding at each record date.

It is the policy of the General Partner to provide unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to unitholders. Rather, a portion of cash available for distribution is reserved and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. The General Partner makes its cash distribution decisions based on the underlying assumptions in each year's annual operating and capital budget and the long-term forecast, consistent with its policy to provide unitholders with stable cash distributions.

"Cash available for distribution" is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of "Cash available for distribution" primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the generation of revenue. Within a 12 month calendar year, there is no variation between revenue generated and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline's planned courses of action in light of management and the board of directors' judgment regarding the most probable set of economic conditions. Investors should be aware that actual results may vary, possibly materially, from such forward-looking adjustments.

The discretionary reserve increased approximately $30.3 million in the fourth quarter of 2007 and approximately $63.0 million year overall in 2007, due to the positive 2007 business performance, primarily driven by the acquisition of Corridor, favourable commodity prices and increased volumes in the NGL extraction business. Business performance was more favourable than anticipated and as such, did not form part of management's 2007 distribution decision. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The tables below show Inter Pipeline's cash distributions paid relative to cash provided by operating activities and net income (loss) for the periods indicated. See also the **OUTLOOK** and **RISK FACTORS** sections of this report for further information regarding the sustainability of cash distributions.

	Three Months Ended December 31		Years Ended December 31		
(millions)	**2007**	2006	**2007**	2006	2005
Cash provided by operating activities	**$ 67.8**	$ 44.3	**$ 234.1**	$ 201.6	$ 171.8
Cash distributions	**(44.0)**	(42.3)	**(171.7)**	(160.8)	(137.7)
Excess	**$ 23.8**	$ 2.0	**$ 62.4**	$ 40.8	$ 34.1

	Three Months Ended December 31		Years Ended December 31		
(millions)	**2007**	2006	**2007**	2006	2005
Net income (loss)	**$ 75.9**	$ 28.3	**$ (80.0)**	$ 130.6	$ 89.3
Cash distributions	**(44.0)**	(42.3)	**(171.7)**	(160.8)	(137.7)
Excess (shortfall)	**$ 31.9**	$ (14.0)	**$ (251.7)**	$ (30.2)	$ (48.4)

Cash distributions in all periods are less than cash provided by operating activities but are in excess of net income (loss) except for the fourth quarter of 2007. Cash distributions are generally more than net income because Inter Pipeline, as a flow-through entity, distributes a cash return of capital in addition to a cash return on capital. Thus the cash distributions will generally always be higher than net income as it will include certain non-cash expenses such as depreciation, future income taxes, unrealized changes in the fair value of derivative financial instruments, etc.

The overall cash distributions of Inter Pipeline are governed by the Partnership Agreement, specifically section 5.2 of the Partnership Agreement requires that Inter Pipeline make distributions of cash as defined in the Partnership Agreement (Distributable Cash) on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the Partnership Agreement, cash distributed to unitholders is always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units as at December 31, 2007 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	220.7	0.2	220.9
Units reserved for issuance upon exercise of vested Unit Incentive Options	1.4	–	1.4

At February 21, 2008, Inter Pipeline had 220.9 million Class A units and 0.2 million Class B units for a total of 221.1 million units outstanding.

FINANCIAL INSTRUMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to changes in power costs, interest rates, foreign currencies and commodity prices. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline attempts to accomplish this primarily through the use of financial instruments. Inter Pipeline is prohibited from using financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through Inter Pipeline's risk management policy.

Inter Pipeline has four types of financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price swap agreements and interest rate swap agreements. All contracts outstanding at December 31, 2006 were being accounted for as hedges; however, effective January 1, 2007, Inter Pipeline discontinued accounting for these financial instruments as hedges. At January 1, 2007, the mark-to-market or fair value of these financial instruments was recorded as an asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of income. When the financial instrument matures, the realized gain or loss is recorded in net income.

NGL EXTRACTION BUSINESS

The following commodity and foreign currency swaps are used collectively to mitigate the frac-spread risk on propane-plus volumes at the Cochrane extraction facility. At December 31, 2007, Inter Pipeline had hedged approximately 33% of forecast propane-plus volumes for the period January 1 to December 31, 2008 at the Cochrane NGL extraction plant at an average price of \$0.48 CDN/USG. This average price would approximate \$0.48 USD/USG based on the average USD/CDN forward curve at December 31, 2007.

Commodity Prices

NGL

Inter Pipeline established a hedging program to sell certain quantities of NGL products at fixed prices to third party counter parties and buy related quantities of natural gas at fixed prices from third party counter parties in order to manage frac-spread risk. Contracts outstanding at December 31, 2007 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

		2007
Contract Period	January to December 2008	
	Average Price (USD/USG)	Average Quantity (b/d)
Propane	**$ 1.091**	**3,246**
Normal butane	**1.264**	**559**
Iso butane	**1.297**	**346**
Pentanes plus	**1.671**	**277**

The mark-to-market value of these contracts resulted in an unrealized loss of CDN $26.2 million (USD $26.4 million) at December 31, 2007.

Contracts outstanding at December 31, 2006 to hedge NGL revenue fixed NGL prices at average prices for the following periods:

		2006
Contract Period	January to December 2007	
	Average Price (USD/USG)	Average Quantity (b/d)
Propane	$ 1.000	4,247
Normal butane	1.156	734
Iso butane	1.169	454
Pentanes plus	1.693	363

The mark-to-market value of these contracts resulted in an unrealized gain of USD $7.4 million at December 31, 2006.

Natural Gas

Contracts outstanding at December 31, 2007 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

		2007
Contract Period	January to December 2008	
	Average Price (CDN/GJ)	Average Quantity (GJ/day)
AECO natural gas	**$ 7.70**	**18,579**

The mark-to-market value of the natural gas contracts at December 31, 2007 resulted in an unrealized loss of $7.8 million.

Contracts outstanding at December 31, 2006 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

	2006	
Contract Period	January to December 2007	
	Average Price (CDN/GJ)	Average Quantity (GJ/day)
AECO natural gas	$ 7.89	22,356

The mark-to-market value of the natural gas contracts at December 31, 2006 resulted in an unrealized loss of $10.0 million.

Foreign Currency

The NGL price swap agreements are calculated based on U.S. dollar prices. At December 31, 2007, Inter Pipeline had the following foreign exchange contracts outstanding:

	2007	
Contract Period	January to December 2008	
	Average Price (USD/CDN)	Average Monthly Notional Amount (USD thousands)
Foreign exchange	**$ 0.927**	**$ 6,610**

The mark-to-market value of these contracts at December 31, 2007 resulted in an unrealized gain of $6.4 million.

As at December 31, 2006, Inter Pipeline had the following foreign exchange contracts outstanding:

	2006	
Contract Period	January to December 2007	
	Average Price (USD/CDN)	Average Monthly Notional Amount (USD thousands)
Foreign exchange	$ 0.893	$ 7,971

The mark-to-market value of these contracts at December 31, 2006 resulted in an unrealized loss of $3.8 million.

CONVENTIONAL OIL PIPELINES BUSINESS

Power Prices

Inter Pipeline entered into the following electricity price swap agreements:

	2007		2006	
Contract Period	*Average Price (CDN/MWh)*	*Average Quantity (MW)*	*Average Price (CDN/MWh)*	*Average Quantity (MW)*
2007	**$ –**	**–**	$ 52.75	5.0
2008	**$ 54.00**	**2.5**	$ 54.00	2.5

The mark-to-market value of these contracts at December 31, 2007 resulted in an unrealized gain of $0.5 million compared to an unrealized gain of $1.3 million at December 31, 2006.

CORPORATE

Interest Rates

A portion of the outstanding variable rate debt at December 31, 2007 is subject to a continuing swap agreement, whereby the variable rate debt has been exchanged for fixed rates as follows:

	2007		2006	
Maturity Date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance *(CDN millions)*	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance *(CDN millions)*
December 30, 2011	**6.30%**	**$ 29.0**	6.30%	$ 30.0
December 31, 2011	**6.31%**	**$ 15.0**	6.31%	$ 15.0

The fair market value of the remaining portion of the interest rate swap agreements aggregates to an unrealized loss of $3.1 million at December 31, 2007 compared to an unrealized loss of $4.0 million at December 31, 2006. These outstanding interest rate swaps totalling $44.0 million are set to expire in December 2011. The notional principal balance of the $29.0 million interest rate swap is reduced by $1.0 million on December 31 of each year for the term of the arrangement.

The following Corridor debentures at December 31, 2007 are also subject to interest rate swap agreements, in which the fixed rate debentures have been exchanged for a variable rate.

	2007		2006	
Maturity Date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance *(CDN millions)*	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance *(CDN millions)*
February 2, 2010	**4.240%**	**$ 150.0**	–	–
February 2, 2015	**5.033%**	**$ 150.0**	–	–

The fair market value of the Corridor interest rate swap agreements aggregates to an unrealized loss of $2.3 million at December 31, 2007.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the quarter or year ended December 31, 2007 or 2006.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former general partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied, in part, to the continuing employment or service as a director or officer of the General Partner. These officers and directors of the General Partner did not receive dividends during the fourth quarter of 2007 from PAC pursuant to their ownership of non-voting shares (Q4 2006 – $0.1 million). Total dividends paid to these officers and directors by PAC in 2007 were $2.1 million (2006 – $0.7 million).

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the Partnership Agreement in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline. See the **OTHER EXPENSES** section of **RESULTS OF OPERATIONS** for details of management and acquisition fees paid to the General Partner during the year.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At December 31, 2007, interest payable to the General Partner on the loan was $4.1 million (2006 – $4.1 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for a nominal interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. The General Partner earned $0.2 million from Inter Pipeline in interest income during the year (2006 – $0.2 million) on a net basis, after paying interest expense to the ultimate note holders. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs. See Note 11 in Inter Pipeline's December 31, 2007 **CONSOLIDATED FINANCIAL STATEMENTS** for information on the repayment terms of the loan.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At December 31, 2007, there were amounts owed to the General Partner by Inter Pipeline of $0.8 million (December 31, 2006 – $0.4 million).

EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

At December 31, 2007, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures as defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2007.

EVALUATION OF DESIGN OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian GAAP in Inter Pipeline's consolidated financial statements.

With the exception of the internal controls related to Corridor, management has made no material changes to the design of Inter Pipeline's internal controls over financial reporting in Inter Pipeline's existing business segments during the fourth quarter of 2007. Inter Pipeline acquired Corridor effective June 15, 2007. Where possible, Corridor has adopted Inter Pipeline's existing business processes and internal controls over financial reporting. For business processes unique to Corridor, management has designed internal controls over financial reporting integrating the accounting and reporting systems.

At December 31, 2007, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design of Inter Pipeline's internal controls over financial reporting controls and procedures as defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design of these internal controls and procedures was effective as of December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's **CONSOLIDATED FINANCIAL STATEMENTS** requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should also refer to Note 1 of the Consolidated Financial Statements for a list of Inter Pipeline's significant accounting policies.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

With the adoption of CICA Handbook section 3855, Financial Instruments – Recognition and Measurement and section 3865 – Hedges in January 2007, Inter Pipeline elected to discontinue hedge accounting for its derivative financial instruments. As a result, Inter Pipeline recognizes an estimate of the fair value of its derivative contracts outstanding at the end of each financial reporting period on its consolidated balance sheet and any unrealized changes in these estimates in the consolidated statements of net income. These amounts are estimates of the fair value at a point in time and the final amount will be determined on the date or interim dates that the derivative contract is settled.

The fair value of derivative financial instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding with reference to actively quoted forward prices, internal valuation models, and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are not actively traded on a standardized exchange. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant.

LONG-TERM RECEIVABLE

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are recoverable from the shippers; therefore the unrealized portion has been recorded as a long-term asset.

INTANGIBLE ASSETS

The costs of Inter Pipeline's intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets. The carrying values of Inter Pipeline's intangible assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This review requires an estimate of future cash flows that are to be derived from the utilization of these assets based on assumptions about future events which may be subject to change depending on future economic or technical developments. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future.

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expires on December 31, 2011, the term of the Cold Lake TSA extends until the Cold Lake Pipeline Limited Partnership (Cold Lake LP) gives notice that it forecasts it will earn less than $1 million of capital fees in the year. After December 31, 2011, the Cold Lake founding shippers may contract with a third party to transport their

dedicated petroleum after giving the Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake LP has the right to match any new service offer from a third party. Therefore, this intangible asset is being amortized on a straight-line basis over the estimated service life of 30 years similar to the property, plant and equipment to which the Cold Lake TSA relates as management believes it is likely the contracts will be renewed into the future. Should the useful life of the Cold Lake pipeline system assets change or the likelihood of the renewal of the Cold Lake TSA change, the amortization of the remaining balance would change accordingly.

The NGL extraction business intangible asset represents the estimated value of customer contracts as at July 28, 2004 when the NGL extraction business was acquired. Although the contracts expire over a period ranging from five years to 20 years as at the date of acquisition, this intangible asset is being amortized over the estimated 30 year useful life of the extraction facilities as management believes it is likely the contracts will be renewed into the future. Should the useful life of the extraction facilities change or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly.

The bulk liquid storage business intangible asset represents the estimated value of the customer contracts, customer relationships and trade name as at October 4, 2004 when the bulk liquid storage business was first acquired. This intangible asset is being amortized over 30 years, as management believes it is likely the contracts will be renewed into the future. The estimated useful life of the contracts ranges from 20 to 30 years. Should the useful life of the bulk liquid storage facilities change or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly.

PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment includes estimates of the life of the assets, depreciation methods and whether impairment in their value has occurred.

Both the Cold Lake pipeline system and the NGL extraction business assets are being depreciated on a straight-line basis over 30 years, consistent with their respective intangible assets. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

The assets of the Corridor pipeline system, facilities, equipment and linefill considered to be plant-in-service are being depreciated on a straight-line basis over the estimated 40 year service life of the assets. In addition, all direct expenditures for construction, including overhead costs, capitalized interest and amortization of debt transaction costs relating to the Corridor expansion project are also capitalized as part of property, plant and equipment. Capitalization of interest, financing costs and operating costs ceases when the capital asset is substantially complete and ready for its intended productive use.

Pipeline linefill and tank working inventory for the Corridor pipeline system represents the petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable the commercial operation of the facilities and pipeline. These volumes of petroleum product will be recovered upon the ultimate retirement and decommissioning of the pipeline system at which time the proceeds from the sale of linefill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the linefill, Inter Pipeline and its affiliates will be obligated to fund the excess. To the extent the value of the linefill exceeds the asset retirement obligation, the funds shall be refunded to the shippers.

Depreciation of the pipeline facilities and equipment of the conventional oil pipeline systems commences when the pipelines are placed in commercial operation. Depreciation of the capital costs are calculated on a straight-line basis over the estimated 30 year service life of the assets, which is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

The bulk liquid storage business property, plant and equipment is being depreciated on a straight-line basis over the estimated service life of the assets, which ranges from 25 to 30 years. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

ASSET RETIREMENT OBLIGATION

Asset retirement obligations are the legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operation of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The assets of the conventional oil pipelines and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded at that time. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline, to removal of the pipeline and reclamation of the right-of-way.

The assets of the NGL extraction and the bulk liquid storage businesses consist mainly of three extraction plants and nine storage facilities, respectively. Inter Pipeline's asset retirement obligation with respect to these assets represents the net present value of the expected cost to be incurred upon the termination of operations and closure of these active facilities. An asset retirement obligation will be accreted over time at rates of 6.1% and 7.8% per annum, respectively, to their estimated undiscounted future values of $101.6 million and $19.8 million, respectively.

ENVIRONMENTAL LIABILITIES

Management has identified a number of environmental projects that Inter Pipeline is obligated to remediate in the future. An accrual must be made when an obligation exists, and the entity should make estimates using current regulations and technology. An undiscounted amount will be accrued using management's best knowledge of sites requiring remediation and the plans that would be put in place to clean up these sites. The actual cash outlay to complete the remediation plans could take place over a time period that may be in excess of 20 years.

UNIT INCENTIVE OPTIONS

Under Inter Pipeline's unit incentive option plan, options to purchase Class A units may be granted to directors, officers, employees, and consultants of the General Partner. Options issued are accounted for in accordance with the fair value method of accounting for unit-based compensation. As such the fair value of each unit is determined as at the date of grant using a binomial pricing model and is then amortized as an expense over the vesting period.

GOODWILL

Goodwill, which was created upon the acquisition of Simon Storage, TLG and Corridor, represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. If the carrying value of any of the reporting units exceeds its fair value, an impairment loss would be

recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the fair value. Inter Pipeline intends to assess the fair value of the goodwill amount for impairment at least annually by discounting the projected future cash flows generated by these assets at Inter Pipeline's cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of assessment, an impairment amount will be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill. The fair value of the underlying assets and liabilities were assessed under the standard and it was determined that there was no impairment of goodwill.

OBLIGATIONS RELATING TO EMPLOYEE PENSION PLANS

Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit plans. The defined benefit plans provide benefits that are based on a combination of years of service and final pensionable salary. Inter Pipeline's policy regarding the defined benefit plans is to fund the amount that is required by the governing legislation. Independent actuaries perform the required calculations to determine pension expense in accordance with GAAP. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liabilities related to the plans. The actuarial assumptions used may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may affect the net pension expense and liability recorded.

INCOME TAXES

While Inter Pipeline is currently subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change again in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability.

CHANGES IN ACCOUNTING POLICIES

FUTURE

International Financial Reporting Standards (IFRS)

In January 2006, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions." For publicly reported enterprises, the AcSB will converge Canadian GAAP with IFRS over a period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 "Capital Disclosures", Handbook Section 3862 "Financial Instruments - Disclosures" and Handbook Section 3863 "Financial Instruments - Presentation". Inter Pipeline will adopt these standards on January 1, 2008. The new standards require the disclosure of quantitative and qualitative information that is intended to provide users of the financial statements with additional disclosures on Inter Pipeline's management of capital and on the risks associated with financial instruments. Inter Pipeline is currently reviewing the impact of these standards on its financial statements.

2007

Financial Instruments, Hedges and Comprehensive Income

The Canadian Institute of Chartered Accountants (CICA) issued the following new accounting standards. For publicly accountable entities, such as Inter Pipeline, these sections became effective January 1, 2007. As a result of these new standards, a significant number of other handbook sections were also amended to ensure consistency with the new recommendations.

- Section 3855 Financial Instruments – Recognition and Measurement;
- Section 3861 Financial Instruments – Disclosure and Presentation;
- Section 3865 Hedges;
- Section 3251 Equity; and
- Section 1530 Comprehensive Income.

Inter Pipeline adopted these standards by adjusting opening partners' equity and accumulated other comprehensive income (AOCI). As required by the new standards, prior periods have not been restated, except to reclassify cumulative foreign currency translation balances of prior periods to AOCI.

Comprehensive Income and Equity

CICA HB Section 1530 introduced comprehensive income, which consists of net income and other comprehensive income (OCI). OCI comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from net income. Inter Pipeline's consolidated financial statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income.

The cumulative changes in OCI are included in AOCI, which is presented as a new category within partners' equity in the Consolidated Balance Sheets in accordance with CICA HB Section 3251. The cumulative foreign currency translation balance, formerly presented as a separate category within partners' equity, is now included in AOCI. Inter Pipeline's consolidated financial statements now include Consolidated Statements of Accumulated Other Comprehensive Income, which provide the continuity of the AOCI balance.

For Inter Pipeline, OCI is currently comprised of the changes in the cumulative foreign currency translation balance and the transfer of unrealized gains and losses on derivatives previously designated as cash flow hedges to income.

The adoption of comprehensive income resulted in an opening adjustment to AOCI of $8.0 million at January 1, 2007 to record the effective portion of the fair value of derivative financial instruments designated as cash flow hedges in prior periods.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, financial derivatives and certain non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives and certain non-financial derivatives, be recognized on the consolidated balance sheet when a contract or certain contractual provisions meet the definition of a financial instrument. Under this standard, all financial instruments, including derivatives, are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities", as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale"

that do not have a quoted market price in an active market are measured at cost. Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading (the fair value option) on its initial recognition or upon adoption of the standard, provided certain criteria are met.

Financial and non-financial derivative instruments are classified as "held-for-trading" and recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of the effective portion of derivatives designated as cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation, which are recognized in OCI.

Section 3855 requires the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost. In addition, an entity must select an accounting policy of either expensing transaction issue costs as incurred or applying them against the carrying value of the related asset or liability.

Inter Pipeline classified its financial instruments as follows. Cash is designated as "held-for-trading" and is measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as "loans and receivables". The long-term receivable is designated as "held-for-trading". Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, convertible debentures and long-term debt are designated as "other liabilities". Derivative financial instruments are classified as "held-for-trading" unless designated for hedge accounting. Inter Pipeline has chosen to designate the long-term receivable as "held-for-trading" as the long-term receivable represents unrealized gains or losses on interest rate swaps that are also classified as "held-for-trading".

Accordingly, at January 1, 2007, Inter Pipeline recognized a net liability of $8.0 million representing the fair market value of derivative financial instruments that qualified as effective cash flow hedges in prior periods, with the offset to AOCI. There were no other opening transition adjustments to financial assets and financial liabilities as a result of these classifications with the exception of those made to long-term debt and debt transaction costs, as outlined below.

Inter Pipeline adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. Accordingly, at January 1, 2007, $1.5 million of deferred financing charges were reclassified to long-term debt. These costs capitalized within long-term debt will be amortized using the effective interest method. Previously, Inter Pipeline deferred these costs and amortized them straight-line over the life of the related long-term debt. The adoption of the effective interest method of amortization resulted in a $0.1 million credit to opening partners' equity. In addition, $1.5 million of discounts included in prepaid expenses and other deposits were reclassified to debt.

In accordance with transitional provisions, Inter Pipeline chose to review all agreements acquired, substantially modified, or entered into on or after January 1, 2003 for embedded derivatives.

Financial Instruments – Disclosure and Presentation

Section 3861 summarizes disclosure requirements that are designed to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. It outlines additional disclosures related to the adoption of CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and CICA Handbook Section 3865 "Hedges", including risk management policies and hedging activities, accounting policies, financial instrument categories and fair valuation methods. Inter Pipeline has adopted the presentation requirements outlined in this section in its financial instruments presentation and disclosure.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the hedging relationship ceases to satisfy the conditions for hedge accounting.

Concurrent with the adoption of section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Accordingly in 2007, Inter Pipeline recognized the change in fair value of the related derivative financial instruments in net income and transferred unrealized gains and losses from AOCI to net income related to contracts settled in the period.

Impact of Adoption of Sections 3855, 3865 and 1530

The net effect to Inter Pipeline's financial statements at January 1, 2007 resulting from the above-mentioned changes is as follows:

(millions)	January 1, 2007
Prepaid expense and other deposits	**$ (1,544)**
Deferred financing charges	**(1,541)**
Fair value of derivative financial instruments (net)	**(7,971)**
Long-term debt	**3,172**
Accumulated other comprehensive income	**7,971**
Partners' equity	**(87)**
	$ –

RISK FACTORS

RISKS ASSOCIATED WITH THE PIPELINES – THE OIL SANDS TRANSPORTATION AND CONVENTIONAL OIL PIPELINES BUSINESSES

Throughput Risks

Demand Risks

Over the long-term, Inter Pipeline's business will depend, in part, on the level of demand for petroleum in the geographic areas in which deliveries are made by the pipelines and the ability and willingness of shippers having access or rights to utilize the pipelines to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, government regulation (including those resulting from the ratification of greenhouse gas legislation, including the initiatives discussed below) or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for petroleum.

Supply Risks

Future throughput on the pipelines and replacement of petroleum reserves in their service areas is dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Reserve bases necessary to maintain long-term supply cannot be assured and petroleum price declines, without compensating reductions in costs of production, may reduce or eliminate the profitability of production and the supply of petroleum for the pipelines. While reserve additions and increased recovery rates historically have tended to offset natural declines in petroleum production in the areas serviced by the pipelines, reserve additions in recent years have not been sufficient to offset natural declines in produced volumes in certain service areas which reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in petroleum production in the future. Sustained low petroleum prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of wells. Drilling activity, production levels and shut-in or abandonment decisions may also be affected by the availability of capital

to producers for drilling, allocation by producers of available capital to drilling for oil as compared to natural gas, current or projected petroleum price volatility, overall supply and demand expectations and light-to-heavy oil price differentials. The pipelines are dependent on producers' continuing petroleum exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in petroleum production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of petroleum transported on the pipelines will decline over time as reserves are depleted.

The Cold Lake pipeline system and the Corridor pipeline system service the Cold Lake and Athabasca oil sands regions of Alberta, respectively. Both areas contain substantial oil sands deposits. Bitumen is produced in the Athabasca region using an open-pit mine operation. In addition, in-situ recovery techniques such as Cyclical Steam Stimulation (CSS) and Steam-Assisted Gravity Drainage (SAGD) are utilized in both the Cold Lake and Athabasca regions. These techniques require higher levels of capital investment and, as a result, bitumen production in these areas is more sensitive to lower producer netback prices than crude oil production in the conventional oil pipeline business segment. Producer netback prices are affected by several factors including bitumen prices, natural gas and diluent costs and light crude oil to heavy crude oil price differentials. Natural gas is required to either heat water or generate steam in order to extract bitumen from the oil sands deposits. As well, the viscosity of bitumen requires diluent or a light crude oil product to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices or a shortage of diluent supply may increase the overall costs of producing bitumen, which may reduce production and/or delay development of new production in the Cold Lake and Athabasca oil sands regions.

Competition and Contracts

Except in the cases of the Cold Lake and Corridor pipeline systems, Inter Pipeline's transportation revenues have been and will continue to be derived primarily from contracts or arrangements of 30 day durations or less with producers in the geographic areas served by its pipelines. There can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon favourable terms to Inter Pipeline. Inter Pipeline's supply contracts with producers in the areas served by the conventional oil pipelines business are based on market-based toll structures negotiated from time to time with individual producers, rather than the cost-of-service recovery-fixed rate of return structures applicable to certain other pipelines. The conventional oil pipelines business is, and will continue to be, subject to market competitive factors.

The pipelines are subject to competition for volumes transported by trucking or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. There can be no assurance that competition from trucking and/or other pipelines will not result in a reduction in throughput on the pipelines.

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers that have committed to utilizing the Cold Lake pipeline system and that pay for such usage over the term of the contract. The minimum annual toll revenues from the Cold Lake pipeline system are derived from the take-or-pay provisions of the Cold Lake TSA, which arrangements continue until 2011. The minimum annual fee under these take-or-pay provisions declined effective January 1, 2005 pursuant to the Cold Lake TSA. Although volumes that are shipped by the Cold Lake founding shippers from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline, the Cold Lake founding shippers may utilize alternative transportation methods after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers following the end of the take-or-pay period will be sustained.

The Corridor pipeline system is operated pursuant to a long-term ship-or-pay contract with the Corridor shippers, that are contractually obligated to utilize the Corridor pipeline system for the transportation of all bitumen and diluent used or produced at the Muskeg River mine. The initial term of the agreement is 25 years, extending through 2028 with options for further extensions. However, there is no assurance that the level of volumes or revenues received from the Corridor shippers following the expiry of the term of the contract will be sustained. In addition, if, for any reason, the Corridor shippers were unable to perform their obligations under the contract with Inter Pipeline, Inter Pipeline's revenue and distributions could be negatively impacted.

Both Inter Pipeline (Corridor) Inc. and the Cold Lake LP can supplement revenues by marketing excess capacity on the Corridor and Cold Lake pipeline systems, respectively, to third parties, but there can be no assurance that Inter Pipeline will be successful in doing so.

Operational Factors

The pipelines are connected to various third party mainline systems such as the Enbridge system, Express pipeline and the Trans Mountain pipeline, as well as refineries in the Edmonton area. Operational disruptions or apportionment on those third party systems or refineries may prevent the full utilization of the pipelines.

Rights-of-Way and Access

Successful development of the pipelines through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities allowing access for such purposes. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated and other sensitive areas. The Cold Lake, Corridor and Central Alberta pipeline systems operate in the Edmonton area, with the Cold Lake pipeline system also having operations within the Cold Lake Air Weapons Range. Although pipelines have been constructed in both areas in recent years, these are two of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Multi-Jurisdictional Regulation

The pipelines are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Alberta Energy Resources Conservation Board in Alberta, and the Saskatchewan Energy and Resources Board in Saskatchewan. As a result, Inter Pipeline's operations may be affected by changes directed by such regulatory authorities.

The Bow River, Central Alberta, Valley, Cold Lake and Corridor pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the Energy Resources Conservation Board. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipeline Regulation* (Saskatchewan) and by Saskatchewan Industry and Resources. None of the pipelines are subject to regulation by the National Energy Board.

Oil pipelines in Alberta may be subject to rate regulation pursuant to the *Public Utilities Act* (Alberta). In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the *Pipelines Act* (Saskatchewan).

Legislation in the Province of Alberta exists to ensure that shippers and producers have fair and reasonable opportunities to produce, transport, process and market their reserves. Under the *Oil and Gas Conservation Act* (Alberta), the Energy Resources Conservation Board may, on application, and following a hearing, declare the proprietor of a pipeline to be a common carrier of oil such that the proprietor must not discriminate among shippers and producers who seek access to the pipeline. Following the issuance of a common carrier declaration, a shipper or producer may apply to the Alberta Utilities Commission for a review and setting of tolls, which it determines to be just and reasonable. Transportation service on the pipelines has been made available on an open access, non-discriminatory basis and the pipelines' tolls have not been set or restricted by any regulatory agency. Should an application to the Alberta Utilities Commission for a setting of tolls be made, it could result in a toll reduction and decreased revenues for Inter Pipeline. Although never exercised, the Alberta Energy and Utilities Board (predecessor to the Alberta Utilities Commission and the Energy Resources Conservation Board) determined that the applicable legislation provided it with jurisdiction to override transportation contracts.

RISKS ASSOCIATED WITH THE NGL EXTRACTION BUSINESS

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the Foothills/Northern Border System and TransCanada Alberta System from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas also may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. In addition, the pipeline systems that service the NGL extraction business may also face competition from other existing or proposed natural gas transmission systems that are not, or will not be, connected to the NGL extraction facilities, resulting in natural gas being unavailable for processing. Also, to continue to have the right to extract NGL from natural gas being transported on the natural gas transmission systems, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas shippers holding the rights to such NGL from time to time, and there is no assurance that Inter Pipeline will be able to renew contracts of the NGL extraction business to extract NGL on economic terms or at all.

The production of NGL from the NGL extraction facilities is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the NGL extraction business. The quantity and composition of NGL may vary over time. For instance, the production of coal bed methane, a dry gas source that contains virtually no recoverable NGL, is forecasted to increase above the current level of approximately 2.5% of TransCanada Alberta System's gas supply. Increased volumes of lean gas on the TransCanada Alberta System will reduce the composition of NGL in the gas streams available for processing at the NGL extraction facilities. Other factors, such as an increased level of natural gas processing conducted at field processing plants upstream of the NGL extraction facilities, increased intra-Alberta consumption of natural gas or processing completed at any new extraction plants constructed upstream of the NGL extraction facilities, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the NGL extraction facilities, could have a materially negative effect on NGL production from the NGL extraction business.

Operational Factors

The NGL extraction facilities are connected to various third party trunk line systems, including the TransCanada Alberta System, Foothills/Northern Border System, Kerrobert Pipeline, Co-Ed Pipeline and the Alberta Ethane Gathering System. Operational disruptions or apportionment on those third party systems and/or disruptions at the other facilities in the Empress area may prevent the full utilization of the NGL extraction facilities.

Competition

The NGL extraction facilities are natural gas markets and, as such, are subject to competition for gas supply from all natural gas markets served by the TransCanada Alberta System or the Foothills/Northern Border System. The NGL extraction facilities are subject to competition from other extraction plants that are in the general vicinity of the NGL extraction facilities or that may be constructed "upstream" of the NGL extraction facilities. The NGL extraction facilities are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta System or the Foothills/Northern Border System. The NGL produced at the NGL extraction facilities or derivatives produced at downstream customer facilities must compete with similar products from other facilities on a local, regional or continental scale.

To the extent that other gas market participants are willing to pay for gas supply, existing or newly constructed extraction or field processing plants are successful in securing natural gas supply currently processed at the NGL extraction facilities or are successful in removing significant amounts of NGL from the gas supply "upstream" of the NGL extraction facilities or products derived from the production at the NGL extraction facilities cannot be priced competitively, Inter Pipeline's revenues and operating results will be adversely affected.

Similarly, there is no assurance that new sources of natural gas supply that may be developed in frontier areas such as Alaska and the Mackenzie Delta in the Northwest Territories will be transported via the natural gas transmission systems straddled by the NGL extraction facilities or that new extraction plants will not be constructed "upstream" of the NGL extraction facilities to process that natural gas.

In August 2006, Taylor NGL Limited Partnership (Taylor) submitted an application to the Alberta Energy and Utilities Board for modifications at their Harmattan facility and to construct a bypass pipeline around the Cochrane Plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the TransCanada Alberta System directly upstream of the Cochrane Plant. Should Taylor be successful in obtaining regulatory approval and physically install the facilities required to convert the Harmattan sour gas processing plant to a hybrid sour gas/mainline straddle plant, there would be a subsequent reduction in volumes available for processing at the Cochrane plant, which could materially and adversely affect the NGL extraction business' financial results, thereby resulting in a decrease in distributions to unitholders. The Alberta Energy and Utilities Board previously adjourned all regulatory proceedings related to the Taylor application pending the outcome of the inquiry into matters related to NGL extraction. In early 2008, AltaGas Income Trust announced the completion of its acquisition of Taylor. See related discussion in **REGULATORY FACTORS** below.

Commodity Price; Frac-Spread

At the Cochrane plant, Inter Pipeline is exposed to the relative price differential between the propane-plus produced and the shrinkage gas used to replace the heat content removed during extraction of the NGL from the natural gas stream. The level of profit obtained from this portion of the NGL extraction business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies (also referred to as the frac-spread).

Extraction Rights

Further influencing the profitability of the NGL extraction business is the cost of extraction premiums paid to natural gas suppliers. Extraction premiums are paid to these suppliers in exchange for the right to extract NGL from their natural gas. Historically, these premiums have been moderate, but it is possible that they could increase, which would adversely affect the cash flow of the NGL extraction business. A reduction in cash flow of the NGL extraction business could materially and adversely affect the business, financial condition, and liquidity, results of operations and distributable cash of Inter Pipeline, thereby resulting in a decrease in distributions to unitholders.

Reliance on Dow Chemical, NOVA Chemicals and BP Canada

Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the vast majority of the cash flow from the NGL extraction business. BP Canada also operates the Empress II plant and the Empress V plant. If, for any reason, these parties were unable to perform their obligations under the various agreements with Inter Pipeline, Inter Pipeline's revenue and distributions, or the operations of the Empress II plant and the Empress V plant, could be negatively impacted.

Regulatory Factors

The Alberta Energy and Utilities Board is conducting an inquiry into matters related to NGL extraction from the common natural gas streams transported by the pipeline transmission systems regulated by the Alberta Utilities Commission. Of significance to Inter Pipeline is the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, public interest criteria used to determine the need and timing of NGL processing capacity additions and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. Currently, straddle plants in Alberta are not commercially regulated and all such facilities operate under similar proprietary commercial arrangements known as the "NGL Extraction Convention". Any potential revisions to the NGL Extraction Convention could impact the NGL extraction rights that are contracted in the future by straddle plants, which could materially and adversely affect the NGL extraction business' financial results, thereby resulting in a decrease in distributions to unitholders.

RISKS ASSOCIATED WITH THE BULK LIQUID STORAGE BUSINESS

Demand for Bulk Liquid Storage

Inter Pipeline's bulk liquid storage business is primarily involved in the storage and handling of liquids for regional petroleum refining and petrochemical businesses. The products stored and handled at these storage terminals are generally either feedstock for petrochemical plants and refineries or are products produced from those facilities. As a result, a sustained slowdown in either the petroleum refining or petrochemical sectors serviced by the bulk liquid storage business could adversely affect Inter Pipeline's revenue and operating results.

The Immingham storage terminals, Inter Pipeline's largest European terminals, are highly integrated with two local refineries, the ConocoPhillips Humber refinery and the Total Lindsey refinery. The closure of one or both refineries would significantly reduce revenues from the bulk liquid storage business.

The bulk liquid storage business has become increasingly dependent upon the storage and handling of vegetable oils and biofuels over the past three years and this now represents approximately 18% of the revenue of the business. As a result, a sustained slowdown in the biofuels sector serviced by the bulk liquid storage business could adversely affect Inter Pipeline's revenue and operating results.

Post Buncefield Regulation

Following the Buncefield oil terminal incident in December 2005, the UK's regulatory authorities have been in the process of formulating policies which require additional high integrity systems and controls on gasoline tanks and associated infrastructure. The extent of infrastructure and manning modifications necessary to comply with such policies has yet to be clearly established, but indications are that further changes to infrastructure may be required to be implemented in the coming years.

During 2007, the UK's regulatory authorities issued a draft "Containment Policy" which, if implemented, would require improvements to bunding facilities at the Simon Storage terminals in the UK. This policy is presently in a consultation period with the UK's oil, tank storage and pipelines industries and implementation is expected in 2008. Extensive costs could arise in implementing required improvements to bunding facilities, which could adversely affect the bulk liquid storage business' financial results.

Competition

The bulk liquid storage business faces competition from other independent bulk liquid terminals which operate in several of the regions serviced by Inter Pipeline's terminals. Certain of the bulk liquid storage business' customers also have the option to store products at their own storage facilities. As a result, customers could elect in the future to make alternative arrangements for the storage and handling of their products resulting in a decline in the bulk liquid storage business' revenue.

Land Lease Renewals

Several key storage terminals are located on lands leased from third parties that must be renewed from time to time. Failure to renew the leases on terms acceptable to Inter Pipeline could result in significantly reduced operating results from the bulk liquid storage business.

Defined Benefit Pension Plan

A defined benefit pension plan exists for certain employees of the bulk liquid storage business. The plan holds interests in various securities and assets including equities, fixed income instruments and real estate. Should the liabilities of the plan exceed the plan's assets, additional cash contributions may be required by Inter Pipeline, which would adversely affect the operating results of the bulk liquid storage business.

RISKS COMMON TO THE OIL SANDS TRANSPORTATION, NGL EXTRACTION, CONVENTIONAL OIL PIPELINES AND BULK LIQUID STORAGE BUSINESSES

Federal Government Tax Fairness Plan

On October 31, 2006, the Government of Canada announced the "Tax Fairness Plan" which, upon implementation, would negatively impact most flow-through entities in Canada, including Inter Pipeline. The related tax rules received Royal assent and became law on June 22, 2007. The implementation of the "Tax Fairness Plan" will result in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 29.5% applied against taxable income, resulting in cash available for distribution being reduced by an amount approximating the new income tax payable. The impact on cash distributions will not be known until the time at which the relationship between cash available for distribution and actual Distributable Cash paid is known. The Government of Canada has also proposed a limit on the growth of flow-through entities tied to the market capitalization of such entities. The proposal provides that a flow-through entity can only issue new equity in an amount equivalent to the market value of such entity's equity on October 31, 2006. Therefore, Inter Pipeline will be able to issue only $2 billion of new equity to grow its business over the next four years. Inter Pipeline continues to assess alternatives in order to remain competitive in light of these proposed amendments to the tax legislation. However, upon implementation, these taxation changes may have an adverse impact on the financial results of Inter Pipeline and distributions to Class A unitholders may be adversely affected.

New Alberta Royalty Regime

On October 25, 2007, the Alberta government released a report titled "The New Royalty Framework" containing the government's proposals for Alberta's new proposed royalty regime which is scheduled to take effect on January 1, 2009 and modifies the manner in which royalties will be charged on oil and gas producing properties in Alberta. The proposed royalty regime does not directly impact Inter Pipeline as it has no producing properties. However, it may indirectly impact Inter Pipeline's results should the producers and shippers operating in areas serviced by Inter Pipeline decide to take actions, such as reduced capital programs or curtailment of volumes shipped, as a result of the proposed royalty regime. This potential impact is tempered substantially by the cost-of-service contracts that are in place in Inter Pipeline's oil sands transportation business segment; however, Inter Pipeline cannot provide any assurance that the new royalty regime will be implemented in the form proposed in "The New Royalty Framework". If changes are made to the royalty regime before it is implemented by the Alberta government, such changes could result in the implementation of a new royalty regime that may indirectly impact Inter Pipeline in a materially different manner, and that is more adverse to Inter Pipeline than the royalty regime proposed in "The New Royalty Framework".

Operational Factors

Inter Pipeline's operations are subject to the customary hazards of the petroleum transportation, storage, marketing and processing business. Inter Pipeline's operations could be interrupted by failures of pipeline, pumps, information systems or processes, and equipment, failure to maintain an adequate inventory of supplies or spare parts, operator error, labour disputes, disputes with owners of interconnected facilities and carriers, and catastrophic events such as natural disasters, fires, explosions, chemical releases, fractures, or other events beyond the General Partner's control, including acts of terrorists, eco-terrorists and saboteurs, and other third-party damage to Inter Pipeline's assets. Operational errors could cause a process safety incident that additionally results in reputational damage to the business. The occurrence or continuance of any of these events could increase the cost of operating facilities and/or reduce their processing, throughput or storage capacity, thereby reducing cash flow and Distributable Cash. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions. However, such coverage may not be sufficient to compensate for all casualty occurrences.

Inter Pipeline has extensive integrity management programs in all of its business segments. While Inter Pipeline believes its programs are consistent with industry practice, increasingly strict operational regulations or new data on the condition of Inter Pipeline's assets could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of Inter Pipeline's assets.

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

Regulatory Intervention and Changes in Legislation

Although the fees charged to customers of the pipelines, the NGL extraction business or the bulk liquid storage business have not been set or restricted by any regulatory agency, an application to the Alberta regulators, Saskatchewan regulator or applicable European agency for the setting of fees could result in a reduction of fees and decreased revenues for Inter Pipeline.

Income tax laws relating to the oil and natural gas industry or Inter Pipeline, environmental and applicable operating legislation, and legislation and regulatory framework governing the oil and natural gas industry, including rights to NGL and their extraction, may be changed in a manner which adversely affects Inter Pipeline's operations or financial results.

Abandonment Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of the pipelines including, indirectly, its proportionate share of costs relating to the Cold Lake LP, the assets in the bulk liquid storage business and the NGL extraction facilities at the end of their economic lives which abandonment costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the extraction or storage facility.

Abandonment requirements can vary considerably. For example, in the context of the pipelines, requirements can range from simply emptying the pipeline and capping all open ends, to the removal of the pipeline and reclamation of the related right-of-way. With respect to pipelines, the costs of abandonment have been limited primarily to the costs associated with the removal of petroleum from the lines, the removal of any associated surface facilities and surface reclamation of the disturbed site. However, future requirements are expected to be more stringent and may include requirements to verify the reclamation of the entire pipeline right-of-way, in addition to the locations of former surface facilities.

Abandonment and reclamation costs for the NGL extraction facilities are regulated by the Energy Resources Conservation Board pursuant to Directive 001 and Directive 024. The NGL extraction facilities are included in the Energy Resources Conservation Board's Large Facilities Liability and Reclamation regulations and have defined reclamation requirements and financial tests to ensure that end of life costs can be funded. However, future requirements may be more stringent.

The General Partner may, in the future, determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See the **PARTNERSHIP AGREEMENT – CASH RESERVES**.

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, Germany, Ireland, the UK, Canada, Alberta and Saskatchewan relating to environmental protection and operational safety. Operation of certain of the pipelines, bulk liquid storage business assets and NGL extraction facilities has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have selectively attempted to identify locations of historical contamination and several locations have been remediated. As these reviews have not included all assets, all locations of historical contamination may not be identified. The remaining identified, but unremediated, sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from Inter Pipeline's operations and previously undetected locations of historical contamination, could result in substantial costs and liabilities for Inter Pipeline. If, at any time, regulatory authorities deem any one of the NGL extraction facilities, pipelines or bulk liquid storage business assets unsafe, they may order it shut down. If Inter Pipeline was not able to recover such resulting costs through insurance or another means, distributions to unitholders could be adversely affected.

While Inter Pipeline maintains insurance in respect of damage caused by seepage or pollution in amounts it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered and reported within fixed time periods. If Inter Pipeline is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Greenhouse Gas Regulations

In 1994, the United Nations' Framework Convention on Climate Change came into force, which three years later led to the Kyoto Protocol. The Kyoto Protocol requires nations to reduce their emissions of carbon dioxide and other greenhouse gases (GHG). The Government of Canada, among other nations, ratified and signed the Kyoto Protocol. Despite this, the Government of Canada has indicated that the Kyoto Protocol targets are unachievable by Canada, but that the environmental impact of GHG emissions will nevertheless be regulated.

The Alberta and federal governments have each introduced regulations to reduce GHG emissions intensity.[(2)] A provincial regulation entitled Specified Gas Emitters became effective as of July 2007. The federal government has stated that its related regulation will become effective on January 1, 2010. These two levels of government have indicated that they intend to harmonize their plans so that in 2010, the Alberta regulations will either cede to or mirror the proposed federal regulations.

The Alberta government's *Specified Gas Emitters* regulation will subject large GHG emitters (meaning, facilities having direct emissions in excess of 100 kilotonnes per annum) to reduce GHG emissions intensity by 12% or to pay a penalty of $15 per tonne. The base period against which emissions reductions are measured is 2003 to 2005 pursuant to the Alberta regulation.

The proposed federal regulations are anticipated to also apply to large GHG emitters. The federal program requires an 18% reduction from the 2006 base period levels by 2010, with additional reductions of 2% per year, reaching a 33% reduction from the 2006 base period levels by 2020. Failure to meet the reduced emissions levels will require payment of a $15 per tonne penalty for an initial three year period (2010 to 2012), with this penalty increasing with the nominal GDP rate.

The Cochrane plant is the sole asset of Inter Pipeline that will be subject to provincial and federal GHG regulations as currently proposed.

The proposed federal regulations also suggest that other air pollutant emissions will be regulated by the year 2015. At this time, sufficient enough detail necessary to evaluate Inter Pipeline's potential related compliance cost in this regard is unavailable.

The adoption of this legislation or other regulatory initiatives designed to reduce GHG and air pollutants from oil and gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines, NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and gas by those producers uneconomic, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain refineries and petrochemical plants may also become uneconomic. In addition, the adoption of the Kyoto Protocol or other related federal or provincial legislation, including the *Specified Gas Emitters* regulation, may also result in higher operating and capital costs for the pipeline assets and the NGL extraction facilities.

(2) "Emissions intensity" measures the ratio of GHG emissions to production. Use of "intensity" in GHG regulations allows emitters whose throughput is growing to increase net emissions without penalty; and ensures that emitters with declining throughput must reduce emissions at rates that exceed the throughput decline rate.

Dependence on Key Personnel

The success of Inter Pipeline will be largely dependent on the skills and expertise of key personnel to manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance, other than for two executive directors of the bulk liquid storage business resident in the UK.

International Operations

A portion of Inter Pipeline's operations are conducted in the UK, Germany and Ireland. Operations outside of Canada are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign-based companies. The occurrence of any adverse international economic conditions could have material adverse effects on Inter Pipeline's cash flows, results of operations and financial condition.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions, including the acquisition of the Corridor pipeline system in 2007, and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, the incurring of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Capital Maintenance Levels

Inter Pipeline maintains and periodically replaces portions of its assets to sustain facility performance, provide a high level of asset integrity, and ensure reliable operations. The funds associated with these efforts may be in the form of sustaining capital or maintenance expenses. Maintenance expenses are a subset of "operating expenses" and are not accounted for separately. Historical sustaining capital expenditures pertaining to Inter Pipeline's facilities during the past three years are summarized by business segment in the table below.

		Years Ended December 31	
(millions)	**2007**	2006	2005
Oil sands transportation	**$ 0.9**	$ 0.2	$ 0.2
NGL extraction	**3.4**	2.7	1.4
Conventional oil pipelines	**3.2**	1.8	2.5
Bulk liquid storage(1)	**4.7**	8.9	2.7
	$ 12.2	$ 13.6	$ 6.8

(1) Simon Storage was acquired on October 4, 2005 and TLG on January 1, 2006.

Inter Pipeline believes it can maintain its assets at similar levels of sustaining capital and maintenance expenditures. However, both sustaining capital and maintenance expenditures may vary considerably from current and forecast amounts as a result of a number of factors, including high equipment failure rates, more stringent government regulations, and any additional efforts deemed necessary by Inter Pipeline to improve the reliability of its assets. An increase in capital and/or maintenance expenditures could result in significant additional costs to Inter Pipeline, which would have an adverse impact on Inter Pipeline's financial results and cash available for distribution to unitholders.

Possible Downgrade of Investment Grade Credit Rating

Inter Pipeline's long-term corporate credit rating is currently confirmed by Standard & Poor's and DBRS to be investment grade (BBB). Inter Pipeline (Corridor) Inc. has been assigned an investment grade long-term corporate credit rating of A (low), A3 and BBB+ by DBRS, Moody's Investor Services and Standard & Poor's, respectively. Should these ratings fall below investment grade then Inter Pipeline or Inter Pipeline (Corridor) Inc. may have to provide security or pay in advance for goods and services which could have material adverse effects on Inter Pipeline's cash flows and financial condition.

RISKS INHERENT IN THE NATURE OF THE PARTNERSHIP

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

Distributions of Distributable Cash by Inter Pipeline will fluctuate and the amount thereof is not guaranteed. Although Inter Pipeline will distribute Distributable Cash, there can be no assurance regarding the amounts thereof. The actual amount thereof will depend upon numerous factors, including operating cash flow, cash reserves established by the General Partner, general and administrative costs, capital expenditures, dispositions, principal repayments and debt service costs. The General Partner has broad discretion in, among other things, establishing, maintaining and decreasing cash reserves, and its decisions regarding reserves and other matters could have a significant impact on the amount of Distributable Cash. The amount of cash distributed may be less than or greater than the amount of income allocated to limited partners for tax purposes.

Nature of the Class A Units

Securities such as Class A units are often associated with investments that provide for returns arising from the pass through of income tax deductions associated with partnership activities and a distribution of distributable cash. Inter Pipeline is not expected to allocate any tax deductions.

The Class A units do not have a guaranteed rate of return and represent a fractional interest in Inter Pipeline. The prices at which the Class A units will trade cannot be predicted. The annual yield on the Class A units as compared to annual yield on other financial instruments may also influence the price of Class A units in the public trading markets. See **RISK FACTORS – RISKS INHERENT IN THE NATURE OF THE PARTNERSHIP – FLUCTUATING DISTRIBUTIONS; CASH DISTRIBUTIONS ARE NOT GUARANTEED.**

One of the factors that may influence the market price of the Class A units is the level of prevailing interest rates relative to the yield achieved by Class A unitholders based on annual distributions on the Class A units. Accordingly, an increase in market interest rates may lead purchasers of Class A units to expect a higher effective yield, which could adversely affect the market price of the Class A units. In addition, the market price for the Class A units may be affected by changes in general market conditions, fluctuations in the markets for equity securities, interest rates and numerous other factors beyond the control of Inter Pipeline.

Responsibility of the General Partner

The General Partner must exercise good faith and integrity in administering the assets and affairs of Inter Pipeline. However, the Partnership Agreement contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to Inter Pipeline and the limited partners, and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties. Unlike the strict duty of a

trustee who must act solely in the best interests of his beneficiary, the Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of Pipeline Assets Corp. as the sole shareholder of the General Partner. The Partnership Agreement also provides that, in certain circumstances, the General Partner will act in its sole discretion, in good faith or pursuant to some other specified standard.

Conflicts of Interest

Certain conflicts of interest could arise as a result of the General Partner's relationship with Pipeline Assets Corp. and its affiliates, on the one hand, and Inter Pipeline on the other. Such conflicts may include, among others, the following situations: (i) the General Partner's determination of the amount and timing of any capital expenditures, borrowings and reserves; (ii) the issuance of additional Class A units; (iii) payments to affiliates of the General Partner for any services rendered to or on behalf of Inter Pipeline; (iv) agreements and transactions with affiliates of the General Partner as producers and shippers utilizing the pipelines; (v) the General Partner's determination of which direct and indirect costs are reimbursable by Inter Pipeline; (vi) the enforcement by the General Partner of obligations owed by the General Partner or its affiliates to Inter Pipeline; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of Inter Pipeline.

Such conflicts of interest may also arise in the conduct of business by affiliates of the General Partner, either currently or in the future, which may be in competition with the business conducted by Inter Pipeline. The General Partner's affiliates are not restricted by the Partnership Agreement from pursuing their own business interests.

Inherent Tax Liability

The assets held directly or indirectly by Inter Pipeline generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Inter Pipeline, or a partnership in which Inter Pipeline is itself a partner, may, depending on the particular circumstances of the disposition and the particular circumstances of Inter Pipeline at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Inter Pipeline which amounts would be allocated among the Partners for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to Partners based on the proportion of cash distributions received by the Partner in the fiscal year.

Capital Resources

Future expansions of the pipelines, the NGL extraction facilities and other capital expenditures will be financed out of cash generated from operations, sales of additional Class A units and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to Inter Pipeline to fund expansion or other required capital expenditures.

Inter Pipeline's ability to refinance its indebtedness under its credit facilities and the General Partner loan will depend upon its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control. In addition, there can be no assurance that future borrowings or equity financing will be available to Inter Pipeline or available on acceptable terms, in an amount sufficient to fund Inter Pipeline's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of Inter Pipeline and the ability of Inter Pipeline to make cash distributions to unitholders.

Leverage

Borrowings made by the General Partner on behalf of Inter Pipeline introduce leverage into Inter Pipeline's business which increases the level of financial risk in the operations of Inter Pipeline and, to the extent interest rates are not fixed, increases the sensitivity of distributions by Inter Pipeline to interest rate variations.

Long-term Debt Restrictive Covenants

The credit facilities described under "Material Contracts" in the AIF and the General Partner loan contain numerous restrictive covenants that limit the discretion of Inter Pipeline's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Inter Pipeline to create liens or other encumbrances, to pay distributions or make certain other payments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities and General Partner loan contain financial covenants that require Inter Pipeline to meet certain financial ratios and financial condition tests. A failure to comply with the obligations under these agreements could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by Inter Pipeline and permit acceleration of the relevant indebtedness. In addition, in some circumstances, it may become necessary to restrict or terminate distributions by Inter Pipeline in order to avoid a default of such obligations.

Issues of Additional Class A Units; Dilution

Inter Pipeline may issue additional Class A units in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. The Partnership Agreement permits Inter Pipeline to issue an unlimited number of additional Class A units without the need for approval from Class A unitholders. The Class A unitholders, other than the General Partner and its affiliates, have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price and the terms of issue of additional Class A units. Any issuance of Class A units may have a dilutive effect to existing unitholders.

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner

Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the limited partners. Directors of the General Partner are elected by Pipeline Assets Corp., the sole shareholder of the General Partner, which is a corporation controlled by John A. Driscoll.

Limited Liability

A limited partner may lose the protection of limited liability if such limited partner takes part in the control of the business of Inter Pipeline or does not comply with legislation governing limited partnerships in force in provinces where the Class A units are offered for sale or where Inter Pipeline carries on business.

General Partner Indemnity

While the General Partner has agreed to indemnify the limited partners in circumstances described in the Partnership Agreement, the General Partner may not have sufficient assets to honour such indemnification.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A, namely "adjusted working capital (deficiency)", "cash available for distribution", "enterprise value", "funds from operations", "funds from operations per unit", "payout ratio after sustaining capital", "payout ratio before sustaining capital", "growth capital expenditures", "sustaining capital expenditures", "total recourse debt to capitalization", "total debt to total capitalization" and "total capitalization" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Adjusted working capital (deficiency) is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments and current portion of convertible debentures.

	As at December 31	
(millions)	**2007**	2006
Total current assets	**$ 191.9**	$ 160.8
Total current liabilities	**(240.9)**	(159.5)
Working capital (deficiency) before exclusions	**(49.0)**	1.3
Exclusions:		
Net fair value of derivative financial instruments	**28.0**	–
Current portion of convertible debentures	**–**	11.7
Adjusted working capital (deficiency)	**$ (21.0)**	$ 13.0

Cash available for distribution includes cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. This measure is used by the investment community to calculate the annualized yield of the units.

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding debt before deferred transaction costs related to debt plus the debt portion of the convertible debentures. This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

	As at December 31	
(millions, except per unit amounts)	**2007**	2006
Closing unit price	**$ 9.49**	$ 9.04
Total closing number of Class A and B units outstanding	**220.9**	201.7
	2,096.2	1,823.6
Long-term debt	**1,887.8**	674.8
Convertible debentures (debt portion)	**–**	11.7
Enterprise value	**$ 3,984.0**	$ 2,510.1

Funds from operations are reconciled from the components of net income as noted below and are expressed before changes in non-cash working capital. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

(millions)	Three Months Ended December 31 2007	2006	Years Ended December 31 2007	2006
Operating revenue	**$ 310.8**	$ 275.2	**$ 1,145.0**	$ 1,011.0
Shrinkage gas expense	**(120.0)**	(110.9)	**(461.9)**	(422.8)
Cash operating expense	**(78.2)**	(96.5)	**(320.6)**	(308.2)
Cash general and administrative expense	**(9.7)**	(9.2)	**(34.2)**	(28.0)
Management and acquisition fees expense	**(2.1)**	(1.2)	**(17.5)**	(5.4)
Credit facility interest expense	**(9.9)**	(3.8)	**(28.7)**	(15.2)
Loan payable to General Partner interest expense	**(5.8)**	(5.8)	**(23.1)**	(23.1)
Interest on debentures	**(4.1)**	(0.3)	**(9.5)**	(1.4)
Current income taxes	**(1.5)**	(0.3)	**(2.6)**	(1.5)
Funds from operations	**$ 79.5**	$ 47.2	**$ 246.9**	$ 205.4

Funds from operations per unit are calculated on a weighted average basis using basic units outstanding during the period.

Growth capital expenditures are generally defined as expenditures that are related to system capacity expansions, business growth, volume or revenue increases and/or sustainable operating efficiencies. This measure is used by the investment community to assess the extent of discretionary capital spending.

Sustaining capital expenditures are generally defined as new assets that provide support to operations and/or expenditures that involve an enhancement to existing assets without the associated benefits characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

	Three Months Ended December 31			
			2007	2006
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 149.2**	**$ 0.5**	**$ 149.7**	$ 6.2
NGL extraction	**8.4**	**1.1**	**9.5**	4.3
Conventional oil pipelines	**0.7**	**1.1**	**1.8**	2.0
Bulk liquid storage	**9.3**	**2.5**	**11.8**	7.9
Total	**$ 167.6**	**$ 5.2**	**$ 172.8**	$ 20.4

	Years Ended December 31			
			2007	2006
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 318.7**	**$ 0.9**	**$ 319.6**	$ 17.1
NGL extraction	**11.3**	**3.4**	**14.7**	9.8
Conventional oil pipelines	**6.0**	**3.2**	**9.2**	15.7
Bulk liquid storage	**27.9**	**4.7**	**32.6**	23.0
Total	**$ 363.9**	**$ 12.2**	**$ 376.1**	$ 65.6

Payout ratio after sustaining capital is calculated by expressing cash distributions declared for the period as a percentage of cash available for distribution after deducting sustaining capital expenditures for the period. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Payout ratio before sustaining capital is calculated by expressing cash distributions paid for the period as a percentage of cash available for distribution before deducting sustaining capital. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Total recourse debt to capitalization is calculated by dividing the sum of long-term debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding long-term debt facilities with no recourse to Inter Pipeline. This measure, in combination with other measures, is used by the investment community to assess the financial strength of the entity.

Total debt to total capitalization is calculated by dividing the sum of total debt excluding discounts and debt transaction costs by total capitalization. This measure, in combination with other measures, is used by the investment community to assess the financial strength of the entity.

Total capitalization includes the sum of long-term debt excluding discounts and debt transaction costs and partners' equity excluding the equity portion of the convertible debentures. Total capitalization is a non-GAAP measure used in the calculation of debt to capitalization ratios. This measure is used by the investment community to assess the long-term sustainability of cash distributions

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's AIF, is available on SEDAR at www.sedar.com. Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's AIF.

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of the General Partner.

Only persons who are residents of Canada, or if partnerships, are Canadian partnerships, in each case for purpose of the Income Tax Act (Canada) are entitled to purchase and own Class A units of Inter Pipeline.

Dated at Calgary, Alberta this 21st day of February, 2008.

Management's Responsibility for Financial Reporting

The management of Pipeline Management Inc. (the "General Partner"), the General Partner of Inter Pipeline Fund ("Inter Pipeline"), is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline.

The consolidated financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on the best estimates and judgments of the management of the General Partner.

The management of the General Partner recognizes the importance of Inter Pipeline maintaining the highest possible standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management of the General Partner has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit Inter Pipeline's financial statements and provide an independent audit opinion. To provide their opinion on the accompanying consolidated financial statements, Ernst & Young LLP review Inter Pipeline's system of internal controls and conduct their work to the extent they consider appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of the General Partner. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. The Board of Directors of the General Partner approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management's Discussion and Analysis.

Pipeline Management Inc., as General Partner of Inter Pipeline Fund

David W. Fesyk
President and Chief Executive Officer

William A. van Yzerloo
Chief Financial Officer

February 19, 2008

Auditors' Report

TO THE PARTNERS OF INTER PIPELINE FUND

We have audited the consolidated balance sheets of Inter Pipeline Fund as at December 31, 2007 and 2006 and the consolidated statements of partners' equity, accumulated other comprehensive (loss) income, net (loss) income, comprehensive (loss) income and cash flows for the years then ended. These financial statements are the responsibility of the management of Pipeline Management Inc. on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants
Calgary, Canada

February 19, 2008

Consolidated Balance Sheets

(thousands of dollars)	2007	As at December 31 2006
		(restated - see note 1(p))
ASSETS		
Current Assets		
Cash	**$ 12,818**	$ 16,294
Accounts receivable	**156,790**	131,520
Fair value of derivative financial instruments (notes 1(p) and 22)	**6,808**	–
Prepaid expenses and other deposits	**15,532**	13,032
Total Current Assets	**191,948**	160,846
Long-term receivable	**2,324**	–
Intangible assets (note 6)	**357,337**	374,583
Property, plant and equipment (note 7)	**2,775,419**	1,545,341
Goodwill (note 8)	**222,796**	74,803
Deferred financing charges (note 1(p))	**–**	1,541
Total Assets	**$ 3,549,824**	$ 2,157,114
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Cash distributions payable (note 9)	**$ 15,482**	$ 14,121
Accounts payable and accrued liabilities (note 15)	**181,393**	123,593
Fair value of derivative financial instruments (notes 1(p) and 22)	**34,811**	–
Deferred revenue	**9,181**	10,108
Current portion of Convertible Debentures (note 10)	**–**	11,697
Total Current Liabilities	**240,867**	159,519
Long-term debt (note 11)	**1,878,849**	674,800
Fair value of derivative financial instruments (notes 1(p) and 22)	**4,594**	–
Asset retirement obligation (note 12)	**13,519**	20,530
Environmental liabilities (note 13)	**10,923**	10,259
Pension liabilities (note 14)	**2,903**	3,442
Long-term incentive plan (note 17)	**2,841**	1,337
Future income taxes (note 15)	**331,137**	88,839
Total Liabilities	**2,485,633**	958,726
Commitments (notes 3, 21 and 22)		
Partners' Equity		
Partners' equity (note 16)	**1,082,485**	1,167,093
Accumulated other comprehensive (loss) income	**(18,294)**	30,779
Conversion feature on Convertible Debentures (note 10)	**–**	516
Total Partners' Equity	**1,064,191**	1,198,388
Total Liabilities and Partners' Equity	**$ 3,549,824**	$ 2,157,114

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Pipeline Management Inc., as General Partner of the Partnership:

John Dielwart

Director

W.D. Robertson

Director

Consolidated Statements of Partners' Equity

(thousands of dollars)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Years Ended December 31 **2007** Total	2006 Total
Balance, beginning of year	$ 1,165,928	$ 1,165	**$ 1,167,093**	$ 1,042,074
Opening adjustment on adoption of new accounting standards (note 1(p))	87	–	**87**	–
Net (loss) income for the year	(79,942)	(80)	**(80,022)**	130,612
Cash distributions declared (note 9)	(171,526)	(172)	**(171,698)**	(160,769)
Issuance of Partnership units (note 16)				
Equity issuances, net of issue costs and future income taxes	143,572	144	**143,716**	142,231
Conversion of Debentures	11,370	12	**11,382**	4,446
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	9,746	10	**9,756**	6,058
Issued under Unit Incentive Option Plan	2,162	2	**2,164**	2,281
Unit incentive options (note 17)	7	–	**7**	160
Balance, end of year	$ 1,081,404	$ 1,081	**$ 1,082,485**	$ 1,167,093

Consolidated Statements of Accumulated Other Comprehensive (Loss) Income

(thousands of dollars)	Years Ended December 31 **2007**	2006 (restated - see note 1(p))
Balance, beginning of year	**$ 30,779**	$ (9,706)
Opening adjustment on adoption of new accounting standards (note 1(p))	**(7,971)**	–
Other comprehensive (loss) income	**(41,102)**	40,485
Balance, end of year	**$ (18,294)**	$ 30,779

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Net (Loss) Income

(thousands of dollars)	Years Ended December 31 **2007**	2006
REVENUES		
Operating revenue (note 24)	**$ 1,144,974**	$ 1,011,038
	1,144,974	1,011,038
EXPENSES		
Shrinkage gas	**461,908**	422,790
Operating	**323,005**	309,238
Depreciation and amortization (note 18)	**87,136**	69,946
Financing charges (note 19)	**61,940**	39,889
General and administrative	**35,106**	28,710
Unrealized change in fair value of derivative financial instruments (note 22)	**27,500**	-
Acquisition fee to General Partner (notes 3, 4 and 20)	**10,883**	376
Management fee to General Partner (note 20)	**6,618**	5,064
Unit incentive options (note 17)	**7**	160
	1,014,103	876,173
INCOME BEFORE INCOME TAXES	**130,871**	134,865
Provision for income taxes (note 15)		
Current	**2,590**	1,479
Future	**208,303**	2,774
	210,893	4,253
NET (LOSS) INCOME	**$ (80,022)**	$ 130,612
Net (loss) income per Partnership unit (note 16)		
Basic and diluted	**$ (0.39)**	$ 0.65

Consolidated Statements of Comprehensive (Loss) Income

(thousands of dollars)	Years Ended December 31 **2007**	2006
NET (LOSS) INCOME	**$ (80,022)**	$ 130,612
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	**(46,300)**	40,485
Transfer of gains and losses on derivatives previously designated as cash flow hedges to net income	**5,198**	–
	(41,102)	40,485
COMPREHENSIVE (LOSS) INCOME	**$ (121,124)**	$ 171,097

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of dollars)	Years Ended December 31 2007	2006
OPERATING ACTIVITIES		
Net (loss) income	**$ (80,022)**	$ 130,612
Depreciation and amortization	**87,136**	69,946
Amortization of deferred financing charges	**–**	212
Amortization of transaction costs on long-term debt	**680**	–
Unit incentive options	**7**	160
Non-cash operating expense	**2,373**	962
Non-cash general and administrative expense	**937**	748
Unrealized change in fair value of derivative financial instruments	**27,500**	–
Future income tax expense	**208,303**	2,774
Funds from operations	**246,914**	205,414
Net change in non-cash working capital (note 23)	**(12,834)**	(3,771)
Cash provided by operating activities	**234,080**	201,643
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(376,072)**	(65,553)
Proceeds on sale of assets	**122**	236
Acquisition of Corridor pipeline system (note 3)	**(302,697)**	–
Assumption of cash on the acquisition of Corridor pipeline system (note 3)	**3,012**	–
Decrease in cash held in trust (note 4)	**–**	37,851
Acquisition of TLG (note 4)	**–**	(37,181)
Assumption of cash on the acquisition of TLG (note 4)	**–**	303
Acquisition of Simon Storage	**–**	(187)
Net change in non-cash investing working capital (note 23)	**23,026**	(1,305)
Cash used in investing activities	**(652,609)**	(65,836)
FINANCING ACTIVITIES		
Cash distributions declared	**(171,698)**	(160,769)
Increase (repayment) of long-term debt	**434,485**	(131,000)
Transaction costs on long-term debt	**(1,383)**	–
Issuance of Partnership units, net of issue costs (note 16)	**143,046**	142,231
Cash received under Distribution Reinvestment and Optional Unit Purchase Plan (note 16)	**9,756**	6,058
Issuance of units under Unit Incentive Option Plan (notes 16 and 17)	**2,164**	2,281
Issuance of Class B units upon Debenture conversions (note 16)	**12**	4
Repayment of Convertible Debentures (note 10)	**(842)**	–
Net change in non-cash financing working capital (note 23)	**1,361**	2,123
Cash provided by (used in) financing activities	**416,901**	(139,072)
Effect of foreign currency translation on foreign denominated cash	**(1,848)**	2,034
Decrease in cash	**(3,476)**	(1,231)
Cash, beginning of year	**16,294**	17,525
Cash, end of year	**$ 12,818**	$ 16,294

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2007

(tabular amounts in thousands of dollars, except per unit amounts)

STRUCTURE OF THE PARTNERSHIP

Inter Pipeline Fund (Inter Pipeline) was formed as a limited partnership under the laws of Alberta pursuant to a Limited Partnership Agreement (LPA) dated October 9, 1997. Pursuant to the LPA, Pipeline Management Inc. (the General Partner) is required to maintain a minimum 0.1% interest in Inter Pipeline. Inter Pipeline is dependent on the General Partner for the administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, NGL extraction business, conventional oil pipeline business, and bulk liquid storage business, as discussed below in the segment reporting policy.

Under the LPA, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the LPA (LPA Distributable Cash) in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline.

Inter Pipeline currently makes monthly cash distributions to holders of the Class A limited liability partnership units (Class A units) and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 9.

The General Partner holds a 0.1% partnership interest in Inter Pipeline represented by Class B units. Public investors hold the remaining 99.9% partnership interest as limited partners represented by Class A units. The General Partner's 0.1% partnership interest is controlled by Pipeline Assets Corp. (PAC).

The General Partner is a wholly-owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied to either the continuing employment of the officers or the continued service as a director of the General Partner.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the significant accounting principles described below. Amounts are stated in Canadian dollars unless otherwise indicated.

The consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. Inter Pipeline's investment in the Cold Lake Pipeline Limited Partnership (Cold Lake LP) and its general partner, Cold Lake Pipeline Ltd., are accounted for using the proportionate consolidation method whereby Inter Pipeline's 85% proportionate share of assets, liabilities, revenues and expenses are included in the accounts, and are presented within the oil sands transportation segment (note 5). Inter Pipeline's interest in all other subsidiaries are accounted for using the consolidation method.

a) Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed.

Industry Segments

The oil sands transportation business consists of two pipeline systems: a heavy blend and condensate pipeline system, and a diluted bitumen and upgrader system, both which operate under long-term contracts with a limited number of customers. The NGL extraction business consists of processing natural gas to extract natural gas liquids (NGL) including ethane and a mixture of propane, butane and pentanes plus (propane plus). The conventional oil pipeline business is primarily the transportation, storage and processing of hydrocarbons. The bulk liquid storage business activity comprises primarily the storage and handling of bulk liquid products through the operation of seven deep water bulk liquid storage terminals located in the United Kingdom and Ireland and two multi-purpose bulk liquid storage terminals in Germany; complementary services are provided through its bulk liquid distribution, engineering, training and facilities management divisions in the United Kingdom.

Geographic Segments

Inter Pipeline has two geographic segments, Canada and Europe. The bulk liquid storage business is located in the United Kingdom, Germany and Ireland, while all other operating segments are in Canada.

b) Revenue Recognition

Oil Sands Transportation Business

Capital fee revenues are recognized based on services provided to each shipper with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, an operating fee equivalent to substantially all of the Cold Lake LP's operating costs is recovered from the shippers.

With respect to Inter Pipeline (Corridor) Inc.'s (Corridor) operations, revenues are recorded when products are delivered and adjusted according to terms prescribed by the Firm Service Agreement (FSA) with the shippers. Under the terms of the FSA, Corridor's revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, as well as a rate of return on the Rate Base (as defined in the FSA) determined with reference to the long-term bond yield reported by the Bank of Canada.

NGL Extraction Business

Revenue is recognized when the earnings process is complete. Generally, this is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred, and pricing is either fixed or determinable.

Conventional Oil Pipeline Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional gathering systems are recognized as the service is provided.

Bulk Liquid Storage Business

Revenues derived from the storage and handling of bulk liquid products and provision of complementary services are recognized as the services are provided.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized. Similarly, a portion of accounts receivable includes unbilled amounts where revenues recognized exceed the amounts billed to date.

c) Long-term Receivable

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are recoverable from the shippers, therefore the unrealized portion has been recorded as a long-term asset.

d) Intangible Assets

Transportation Services Agreement

The Transportation Services Agreement (TSA) is amortized on a straight-line basis over the estimated service life of 30 years of the Cold Lake LP's pipeline facilities and equipment to which the TSA relates. The carrying value of the investment in the TSA is tested for impairment by reviewing the financial reports and other public information of its counterparties, to determine their financial ability to pay the committed amounts.

Customer Contracts, Relationships and Tradename

The NGL extraction business intangible assets consist of customer contracts for the sales of ethane and propane plus. The contracts include fee-based contracts, cost of service contracts and profit-sharing arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method.

The bulk liquid storage business intangible assets are primarily customer contracts for the storage and handling of bulk liquid products. The estimated life of the contracts ranges from 20 to 30 years. The intangibles also include customer relationships and tradename. These assets are being amortized over 30 years.

Patent

A patented operational process utilized in one of the extraction facilities is being amortized over 14 years from the acquisition of the NGL extraction business on July 28, 2004.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

e) Property, Plant and Equipment

Oil Sands Transportation Business

The Cold Lake pipeline system's property, plant and equipment consist of pipelines and related facilities. Depreciation of the capital costs is calculated on a straight-line basis over the estimated service life of the assets which is 30 years.

Cost of Corridor pipeline facilities and equipment includes all direct expenditures for system construction, expansion, and betterments. This includes an allocation of overhead costs, capitalized interest, amortization of transaction costs on debt relating to the Corridor expansion, and operating costs incurred prior to the in-service date. Capitalization of interest, financing costs and operating costs ceases when the capital asset is substantially complete and ready for its intended productive use. Depreciation of the capital costs is recorded on a straight-line basis over the estimated service life of the assets, which is 40 years.

Pipeline linefill and tank working inventory for the Corridor pipeline system represents the petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. These volumes of petroleum product will be recovered upon the ultimate retirement and decommissioning of the pipeline system at which time the proceeds from the sale of the linefill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the linefill, Inter Pipeline and its affiliates will be obligated to fund the excess. To the extent the value of the linefill exceeds the asset retirement obligation, the funds shall be refunded to the shippers.

Linefill is carried at cost less accumulated depreciation. Cost includes all direct expenditures for acquiring the petroleum based products. Depreciation is calculated on the same basis as the related property, plant and equipment.

NGL Extraction Plants and Equipment

Property, plant and equipment of the NGL extraction business are comprised primarily of three extraction plants and associated equipment. Expenditures on the plants' expansion or betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the extraction plants and additions thereto is charged once the assets are placed in commercial operation, and is calculated using the straight-line basis over the estimated useful life of the assets, which is 30 years.

Conventional Oil Pipeline Business

Expenditures on the conventional gathering system's expansion and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 30 year service life of the assets, which is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

Expenditures incurred to design and construct crude petroleum receipt facilities on the properties of third-party operators, to be owned and operated by the respective third-party operators, have been capitalized as they provide a benefit to Inter Pipeline over the life of the contracts with the third-party operators. Such expenditures are referred to as deferred receipt facilities expenditures. The costs are amortized on a straight-line basis over the term of the agreements with the third-party operators. Amortization commences when the facilities begin commercial operations.

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the capital costs is calculated on a straight-line basis over the estimated service life of the assets which ranges from 25 to 30 years.

f) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of the bulk liquid storage business and Corridor pipeline system. Goodwill is carried at initial cost less write down for impairment. If the carrying value of either the bulk liquid storage or the oil sands transportation business exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair value determined on a discounted cash flow basis. During each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired the fair value.

g) Convertible Debentures

The 10% Convertible Extendible Unsecured Subordinated Debentures (Debentures) are classified as a liability with the exception of the portion relating to the conversion feature, which is classified as equity, resulting in the carrying value of the Debentures being less than their face value. This discount is being accreted over the term of the Debentures utilizing the effective interest rate method and the 11% interest rate implicit in the Debentures. The equity component is reclassified to Partners' Equity at the time of conversion of the Debentures into Class A units with the related interest expensed as incurred. All of the Debentures were either converted or redeemed as at December 31, 2007.

h) Asset Retirement Obligations

Asset retirement obligations are the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operations of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset, and depreciated over the asset's useful life.

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and nine bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of these active facilities. The estimated costs for asset retirement obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites.

Conventional Oil Pipeline Business and Oil Sands Transportation Business

The property, plant and equipment of the conventional oil pipeline and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way.

i) Environmental Liabilities

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely to be realized are separately recorded and are not offset against the related environmental liability.

j) Pension Liabilities

The cost of pension benefits earned by certain of the employees in the United Kingdom, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group, which is approximately 14 years and 16 years for certain of the United Kingdom and Ireland employees, respectively, and 15 years for the German employees. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

k) Long-term Incentive Plan and Unit Incentive Options

Unit incentive plan expense for Inter Pipeline's Unit Incentive Option Plan (Option Plan) is calculated using the fair value method, whereby the value of each of the unit incentive options (Options) is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the Options as a charge to the Consolidated Statements of Net (Loss) Income, with a corresponding increase recorded in the Consolidated Statements of Partners' Equity. The consideration paid to Inter Pipeline upon the exercise of options is recorded as an increase in Partners' Equity to reflect the units issued.

Under Inter Pipeline's long-term incentive plan (LTIP) where the awards are paid in cash, the mark-to-market basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and the current market price of Inter Pipeline's units plus the accrued distributions to date. The expense is recognized over the vesting periods of the respective awards.

l) Income Taxes

Current Income Taxes

The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Germany and Ireland.

Future Income Taxes

Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

m) Foreign Currency Translation

Inter Pipeline accounts for Simon Storage and TLG as self-sustaining operations. Therefore, the accounts of Simon Storage and TLG are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to these self-sustaining operations are included as a component of Other Comprehensive (Loss) Income.

n) Measurement Uncertainty

The amounts recorded for the long-term receivable, intangible assets, depreciation of property, plant and equipment, amortization of deferred receipt facilities expenditures, goodwill, fair value of derivative financial instruments, asset retirement obligations, environmental liabilities, pension liabilities, unit-based compensation, and future income taxes are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

o) Financial Instruments

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to power prices, commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGL, and electric power) as well as changes within the financial market relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's policy is not to utilize derivative financial instruments for speculative purposes.

p) Accounting Policy Changes

On January 1, 2007, Inter Pipeline adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". Inter Pipeline adopted these standards by adjusting opening partners' equity and accumulated other comprehensive income (AOCI). As required by the new standards, prior periods have not been restated, except to reclassify cumulative foreign currency translation balances of prior periods to AOCI.

Comprehensive Income and Equity

CICA HB Section 1530 introduced comprehensive income, which consists of net income and other comprehensive income (OCI). OCI comprises revenues, expenses, gains and losses that, in accordance with Canadian Generally Accepted Accounting Principles (GAAP), are recognized in comprehensive income, but excluded from net (loss) income. Inter Pipeline's consolidated financial statements now include a Consolidated Statements of Comprehensive (Loss) Income, which includes the components of comprehensive income.

The cumulative changes in OCI are included in AOCI, which is presented as a new category within partners' equity in the Consolidated Balance Sheets in accordance with CICA HB Section 3251. The cumulative foreign currency translation balance, formerly presented as a separate category within partners' equity, is now included in AOCI. Inter Pipeline's consolidated financial statements now include Consolidated Statements of Accumulated Other Comprehensive (Loss) Income, which provides the continuity of the AOCI balance.

For Inter Pipeline, OCI is currently comprised of the changes in the cumulative foreign currency translation balance and the transfer of unrealized gains and losses on derivatives previously designated as cash flow hedges to income.

The adoption of comprehensive income resulted in an opening adjustment to AOCI of $8.0 million at January 1, 2007 to record the effective portion of the fair value of derivative financial instruments designated as cash flow hedges in prior periods.

The accumulated foreign currency translation adjustment loss at December 31, 2007 of $15.5 million has been recorded to AOCI (December 31, 2006 – gain of $30.8 million). The decrease of $46.3 million in the accumulated foreign currency translation adjustment balance for the year ended December 31, 2007 is now included in OCI in the Consolidated Statements of Comprehensive (Loss) Income (year ended December 31, 2006 – increase of $40.5 million). In addition, in the year ended December 31, 2007, $5.2 million of unrealized gains and losses on derivatives designated as cash flow hedges in prior periods have been transferred to income.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, financial derivatives and certain non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives and certain non-financial derivatives, be recognized on the consolidated balance sheets when a contract or certain contractual provisions meet the definition of a financial instrument. Under this standard, all financial instruments, including derivatives, are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities", as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at cost. Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading (the fair value option) on its initial recognition or upon adoption of the standard, provided certain criteria are met.

Financial and non-financial derivative instruments are classified as "held-for-trading" and recorded on the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of the effective portion of derivatives designated as cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation, which are recognized in OCI.

Section 3855 requires the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost. In addition, an entity must select an accounting policy of either expensing transaction issue costs as incurred or applying them against the carrying value of the related asset or liability.

Inter Pipeline has classified its financial instruments as follows. Cash is designated as "held-for-trading" and is measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as "loans and receivables". The long-term receivable is designated as "held-for-trading". Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, Debentures and long-term debt are designated as "other liabilities". Derivative financial instruments are classified as "held-for-trading" unless designated for hedge accounting. Inter Pipeline has chosen to designate the long-term receivable as "held-for-trading" as the long-term receivable represents unrealized gains or losses on interest rate swaps that are also classified as "held-for-trading".

Accordingly, at January 1, 2007, Inter Pipeline recognized a net liability of $8.0 million representing the fair market value of derivative financial instruments that qualified as effective cash flow hedges in prior periods, with the offset to AOCI. There were no other opening transition adjustments to financial assets and financial liabilities as a result of these classifications with the exception of those made to long-term debt and debt transaction costs, as outlined in the paragraph below.

Inter Pipeline has adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. Accordingly, at January 1, 2007, $1.5 million of deferred financing charges were reclassified to long-term debt. These costs capitalized within long-term debt will be amortized using the effective interest method. Previously, Inter Pipeline deferred these costs and amortized them on a straight-line basis over the life of the related long-term debt. The adoption of the effective interest method of amortization resulted in a $0.1 million credit to opening partners' equity. In addition, $1.5 million of discounts included in prepaid expenses and other deposits were reclassified to long-term debt.

In accordance with transitional provisions, Inter Pipeline chose to review all agreements acquired, substantially modified, or entered into on or after January 1, 2003 for embedded derivatives.

Financial Instruments – Disclosure and Presentation

Section 3861 summarizes disclosure requirements that are designed to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. It outlines additional disclosures related to the adoption of CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and CICA Handbook Section 3865 "Hedges", including risk management policies and hedging activities, accounting policies, financial instrument categories and fair valuation methods. Inter Pipeline has adopted the presentation requirements outlined in this section in its financial instruments presentation and disclosure.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the hedging relationship ceases to satisfy the conditions for hedge accounting.

Concurrent with the adoption of section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Accordingly, for the year ended December 31, 2007, Inter Pipeline has recognized the change in fair value of the related derivative financial instruments in income and has transferred unrealized gains and losses from AOCI to income related to contracts settled in the period.

Impact upon Adoption of Sections 1530, 3855 and 3865

The net effect to Inter Pipeline's consolidated financial statements at January 1, 2007 resulting from the above-mentioned changes is as follows:

	January 1, 2007
Prepaid expenses and other deposits	**$ (1,544)**
Deferred financing charges	**(1,541)**
Fair value of derivative financial instruments (net)	**(7,971)**
Long-term debt	**3,172**
Accumulated other comprehensive income	**7,971**
Partners' equity	**(87)**
	$ –

Regulatory Accounting

With the acquisition of the Corridor pipeline system on June 15, 2007, Inter Pipeline adopted a regulatory accounting policy whereby certain assets and liabilities, revenues and expenses of Corridor pipeline operations qualified for selected accounting treatments that differed from those used by entities not subject to rate regulation. In the fourth quarter of 2007, Inter Pipeline decided to retroactively discontinue regulatory accounting for the Corridor operations. As a result of this change, Inter Pipeline's future tax liabilities are increased by $16.7 million, net income is increased by $4.1 million, and Partners' equity is decreased by $20.8 million.

q) Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 "Capital Disclosures", Handbook Section 3862 "Financial Instruments – Disclosures" and Handbook Section 3863 "Financial Instruments – Presentation". Inter Pipeline will adopt these standards on January 1, 2008. The new standards require the disclosure of quantitative and qualitative information that is intended to provide users of the consolidated financial statements with additional disclosures on Inter Pipeline's management of capital and on the risks associated with financial instruments.

In 2006, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions." For publicly accountable enterprises (PAEs), the AcSB will converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for PAEs. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

2. SECOND QUARTER TAX ADJUSTMENT

During the fourth quarter of 2007, Inter Pipeline recalculated the estimate for the Specified Investment Flow-Through (SIFT) tax reported in the second quarter of 2007. The recalculation resulted in a $7.6 million increase in the SIFT tax liability as at

June 30, 2007 from $236.2 million to $243.8 million. The previously reported future tax liability on the balance sheet of $335.9 million increased to $343.5 million, net loss changed from $207.9 million ($1.03 loss per unit) to $215.5 million ($1.06 loss per unit) for the three months ended June 30, 2007 and net loss changed from $183.4 million ($0.91 loss per unit) to $191.0 million ($0.94 loss per unit) for the six months ended June 30, 2007. The results reported for the year ended December 31, 2007, reflect the adjustment made to the second quarter of 2007.

3. ACQUISITION OF CORRIDOR PIPELINE SYSTEM

On June 15, 2007, Inter Pipeline completed the acquisition of the Corridor pipeline system through the purchase of 100% of the share capital of Terasen Pipelines (Corridor) Inc. for cash consideration of $302.7 million, and long-term debt assumed of $777.0 million. The acquisition was funded through an existing revolving credit facility (note 11). As a result of this transaction, an acquisition fee of $10.9 million was paid to the General Partner, pursuant to the terms of the LPA. Inter Pipeline began consolidating Corridor in the oil sands transportation business segment on the acquisition date. As a result of the Corridor acquisition, Inter Pipeline assumed the commitment to complete the $1.8 billion expansion to the Corridor pipeline system (Corridor Expansion) in accordance with the terms of the FSA.

The acquisition was accounted for by the purchase method as of the closing date of June 15, 2007. The allocation of the purchase price was as follows:

Cash	$ 3,012
Non-cash working capital deficiency	(18,316)
Long-term receivable	10,234
Property, plant and equipment	979,149
Goodwill	157,401
Long-term debt, net of debt transaction costs and discount of $3.6 million	(773,438)
Fair value of derivative financial instruments	(10,234)
Future income tax liability	(45,111)
	$ 302,697

4. ACQUISITION OF SIMON TANKLAGER-GESELLSCHAFT MBH (TLG)

On January 1, 2006, Inter Pipeline acquired all of the outstanding shares of TLG, an independent bulk liquid storage business located in Mannheim, Germany. The results of the operations of TLG have been included in the consolidated financial statements since that date. The cash consideration for this transaction was $37.2 million (€27 million, including closing adjustments and acquisition costs), which was funded from Inter Pipeline's existing credit facilities. At December 31, 2005, approximately $38.0 million of cash was held in trust pending the closing of this acquisition on January 1, 2006. Concurrent with this transaction, an acquisition fee of $0.4 million was paid to the General Partner, pursuant to the terms of the LPA.

The acquisition was accounted for by the purchase method as at the closing date of January 1, 2006. Inter Pipeline allocated the purchase price as follows:

Cash	$ 303
Non-cash working capital deficiency	(1,264)
Property, plant and equipment	50,926
Goodwill	12,787
Asset retirement obligation	(301)
Environmental liability	(2,903)
Pension liability	(1,501)
Future income tax liability	(20,866)
	$ 37,181

5. SEGMENT REPORTING

Inter Pipeline operates its business under the following principal business segments:

	2007						
	Canada					Europe	Total
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipeline Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Canadian and European Operations
Revenues	$ 108,951	$ 756,696	$ 122,841	$ –	$ 988,488	$ 156,486	$ 1,144,974
Expenses							
Shrinkage gas	–	461,908	–	–	461,908	–	461,908
Operating	35,795	149,196	38,607	–	223,598	99,407	323,005
Depreciation and amortization	26,312	25,557	18,724	–	70,593	16,543	87,136
Financing charges	12,785	–	–	49,901	62,686	(746)	61,940
General and administrative	1,918	–	–	22,108	24,026	11,080	35,106
Unrealized change in fair value of derivative financial instruments	–	27,697	8	(205)	27,500	–	27,500
Acquisition fee to General Partner	–	–	–	10,883	10,883	–	10,883
Management fee to General Partner	–	–	–	6,618	6,618	–	6,618
Unit incentive options	–	–	–	7	7	–	7
Total expenses	76,810	664,358	57,339	89,312	887,819	126,284	1,014,103
Income (loss) before income taxes	32,141	92,338	65,502	(89,312)	100,669	30,202	130,871
(Recovery of) provision for income taxes	(3,919)	–	–	218,515	214,596	(3,703)	210,893
Net income (loss)	$ 36,060	$ 92,338	$ 65,502	$ (307,827)	$ (113,927)	$ 33,905	$ (80,022)
Expenditures on property, plant and equipment	$ (319,663)	$ (14,639)	$ (9,196)	$ –	$ (343,498)	$ (32,574)	$ (376,072)
Total assets	$ 1,897,347	$ 765,802	$ 464,391	$ –	$ 3,127,540	$ 422,284	$ 3,549,824
Goodwill	$ 157,401	$ –	$ –	$ –	$ 157,401	$ 65,395	$ 222,796

	2006						
	Canada					Europe	Total
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipeline Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Canadian and European Operations
Revenues	$ 58,823	$ 691,767	$ 116,722	$ –	$ 867,312	$ 143,726	$ 1,011,038
Expenses							
Shrinkage gas	–	422,790	–	–	422,790	–	422,790
Operating	21,336	157,777	36,832	–	215,945	93,293	309,238
Depreciation and amortization	16,036	25,169	18,349	–	59,554	10,392	69,946
Financing charges	–	–	–	40,436	40,436	(547)	39,889
General and administrative	–	–	–	18,107	18,107	10,603	28,710
Acquisition fee to General Partner	–	–	–	376	376	–	376
Management fee to General Partner	–	–	–	5,064	5,064	–	5,064
Unit incentive options	–	–	–	160	160	–	160
Total expenses	37,372	605,736	55,181	64,143	762,432	113,741	876,173
Income before income taxes	21,451	86,031	61,541	(64,143)	104,880	29,985	134,865
Provision for income taxes	173	–	–	–	173	4,080	4,253
Net income	$ 21,278	$ 86,031	$ 61,541	$ (64,143)	$ 104,707	$ 25,905	$ 130,612
Expenditures on property, plant and equipment	$ (17,052)	$ (9,839)	$ (15,700)	$ –	$ (42,591)	$ (22,962)	$ (65,553)
Total assets	$ 453,867	$ 766,923	$ 469,192	$ –	$ 1,689,982	$ 467,132	$ 2,157,114
Goodwill	$ –	$ –	$ –	$ –	$ –	$ 74,803	$ 74,803

6. INTANGIBLE ASSETS

			2007	2006
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Transportation Services Agreement	$ 93,548	$ (16,118)	**$ 77,430**	$ 80,656
NGL extraction business				
Customer contracts	287,612	(32,761)	**254,851**	264,438
Patent	8,727	(2,130)	**6,597**	7,220
	296,339	(34,891)	**261,448**	271,658
Bulk liquid storage business				
Customer contracts and relationships	14,896	(1,115)	**13,781**	16,624
Tradename	5,057	(379)	**4,678**	5,645
	19,953	(1,494)	**18,459**	22,269
	$ 409,840	$ (52,503)	**$ 357,337**	$ 374,583

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation & Amortization	2007 Net Book Value	2006 Net Book Value
Oil sands transportation business				
Facilities and equipment	$ 978,528	$ (72,078)	**$ 906,450**	$ 320,030
Construction work in progress	646,063	–	**646,063**	19,457
Pipeline linefill	74,033	(961)	**73,072**	10,384
	1,698,624	(73,039)	**1,625,585**	349,871
NGL extraction business				
Facilities and equipment	427,683	(47,842)	**379,841**	398,180
Construction work in progress	21,181	–	**21,181**	11,830
Spare parts	4,265	–	**4,265**	3,617
	453,129	(47,842)	**405,287**	413,627
Conventional oil pipeline business				
Facilities and equipment	782,082	(347,122)	**434,960**	443,907
Construction work in progress	2,052	–	**2,052**	2,415
Deferred receipt facilities expenditures	6,138	(5,996)	**142**	426
	790,272	(353,118)	**437,154**	446,748
Bulk liquid storage business				
Facilities and equipment	307,828	(21,274)	**286,554**	318,198
Construction work in progress	20,839	–	**20,839**	16,897
	328,667	(21,274)	**307,393**	335,095
	$ 3,270,692	$ (495,273)	**$ 2,775,419**	$ 1,545,341

8. GOODWILL

The changes in the book value of goodwill are as follows:

	2007	2006
Balance, beginning of year	**$ 74,803**	$ 53,893
Acquisitions (notes 3 and 4)	**157,401**	12,787
Finalization of purchase price allocation	**–**	(784)
Foreign currency translation adjustments	**(9,408)**	8,907
Balance, end of year	**$ 222,796**	$ 74,803

9. CASH DISTRIBUTIONS PAYABLE

Section 5.2 of the LPA requires that Inter Pipeline make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

For the year ended December 31, 2007, Inter Pipeline declared cash distributions totaling $171.7 million (2006 – $160.8 million). As at December 31, 2007, distributions of $15.5 million are payable to 220.7 million outstanding Class A units and 0.2 million outstanding Class B units at $0.07 per unit (December 31, 2006 – $14.1 million payable to 201.5 million outstanding Class A units and 0.2 million outstanding Class B units at $0.07 per unit).

10. CONVERTIBLE DEBENTURES

Effective December 18, 2002, Inter Pipeline issued $138.0 million of Debentures for net proceeds of $132.5 million. The Debentures had an initial maturity date of February 15, 2003, which was extended to December 31, 2007, in conjunction with the acquisition of Cold Lake L.P.

The Debentures incurred interest at 10% per annum, payable semi-annually on June 30 and December 31 of each year. The Debentures were convertible at the option of the holder into Class A units at any time prior to the close of business on December 31, 2007 at a conversion price of $6.00 per Class A unit. On December 31, 2007, Inter Pipeline redeemed all of the outstanding Debentures for cash consideration of $0.8 million.

11. LONG-TERM DEBT

	2007	2006
$2,142 million Unsecured Revolving Credit Facility (a)	**$ 740,000**	$ –
$750 million Unsecured Revolving Credit Facility (b)	**468,000**	295,000
Loan Payable to General Partner (c)	**379,800**	379,800
Corridor Debentures (d)	**300,000**	–
	1,887,800	674,800
Transaction Costs (note 1)	**(5,467)**	–
Accumulated amortization of transaction costs	**1,738**	–
Discount, net of accumulated amortization	**(5,222)**	–
	$ 1,878,849	$ 674,800

(a) On August 16, 2007, Corridor entered into a new unsecured $2,142 million syndicated revolving credit facility and a $40 million demand operating facility. The credit facility is comprised of the following tranches:

i. $190 million non-recourse tranche expiring on August 14, 2012
ii. $1,464 million non-recourse tranche expiring on August 14, 2012
iii. $292 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012 and the Corridor first expansion commencement date or the suspension true-up date
iv. $196 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012, the Corridor first expansion commencement date or the suspension true-up date

The credit and operating facilities incur fees on amounts borrowed at floating rates based on bankers' acceptances plus 45 to 65 basis points. Unborrowed amounts are charged standby fees of 10 to 15 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 55 basis points or reduce by up to 10 basis points, while fees on undrawn amounts could increase by up to 12 basis points and decrease by up to 2.5 basis points.

(b) On September 29, 2006, the $500 million Unsecured Revolving Credit Facility was amended to extend the revolving period and reduce pricing margins. Under the amendment, the facility was fully revolving for a period of five years from September 29, 2006. This revolving period may be extended at any time with the agreement of the lenders, but it cannot exceed five years from the date of extension. The amendment contained an option to increase the total facility up to a maximum of $750 million subject to satisfying certain conditions.

In 2006, fees on amounts borrowed at floating rates based on bankers' acceptances decreased from 75 basis points to 60 basis points, while fees on unborrowed amounts decreased from 15 basis points to 12.5 basis points. If Inter Pipeline's credit rating changes, the fees on floating rate amounts could increase by up to 35 basis points or reduce by up to 22.5 basis points, while fees on undrawn amounts could increase by up to 15 basis points and decrease by up to 2.5 basis points.

On June 15, 2007, Inter Pipeline amended certain terms and increased the size of its revolving credit facility by $250 million to $750 million. The increased facility was used to partially finance the Corridor acquisition. In October, 2007, the maturity date for $660 million of the revolving facility was extended to September 29, 2012.

(c) On October 28, 2004, Inter Pipeline borrowed $379.8 million from the General Partner with the following terms:

- $91.2 million due October 28, 2012, 5.85%; and
- $288.6 million due October 28, 2014, 6.15%.

On this date, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. These proceeds were then used to partially repay the $443 million unsecured non-revolving credit facility used to acquire the NGL extraction business.

This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for a nominal interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. There are no scheduled repayments of the principal amounts of the notes payable to the General Partner prior to maturity. A prepayment may be made at any time, in which case the General Partner would generally be required to pay a premium of 50 basis points over the implied yield to maturity and, if applicable, swap breakage costs of the counterparty.

Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

In 2007, due to amendments made for the Corridor expansion, interest costs have been increased by 25 basis points until the end of 2009.

(d) As a result of the acquisition of Corridor, Inter Pipeline assumed $150 million of 4.240% Series A Debentures due February 2, 2010 and $150 million of 5.033% Series B Debentures due February 2, 2015 (Corridor Debentures). The Corridor Debentures are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year. Corridor uses derivative instruments to exchange its fixed rate of interest to floating rates of interest (note 22). This results in average effective interest rates that are different from the stated interest rates. The effective rates on the Series A and B Debentures for the period from June 16, 2007 to December 31, 2007 were 5.103% and 5.282% respectively.

The Corridor Debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

(e) Effective May 1, 2006, Inter Pipeline established a $20 million revolving demand loan facility with a Canadian Chartered bank for cash management purposes. Amounts borrowed under this facility bear interest at the same applicable rates as the $750 million Unsecured Revolving Credit Facility, while no fees are payable on undrawn amounts. At December 31, 2007, no amounts were drawn on this facility.

(f) In 2007, Inter Pipeline had a net increase of $1,213 million in its long-term debt. $740 million of the increase was drawn on the $2,142 million Corridor Revolving Credit Facility, $173 million of additional debt was drawn on the $750 million Unsecured Revolving Credit Facility, and $300 million relates to the Corridor Debentures assumed.

(g) At December 31, 2007, outstanding letters of credit of $3.7 million have been issued by Corridor.

12. ASSET RETIREMENT OBLIGATIONS

The total undiscounted amount of estimated expenditures expected to be incurred on closure of active plants is $121.4 million, which was calculated using an inflation rate of 2% (NGL extraction business only) and an expected life of 40 years. A credit-adjusted risk-free rate of 6.1% was used to discount the estimated future cash flows for the retirement of the NGL extraction business assets, while a credit-adjusted risk-free rate of 7.8% was used to discount the estimated future cash flows for the retirement of the bulk liquid storage business assets. These obligations are not expected to occur for many years and will be funded from Inter Pipeline's resources at that time.

The following table shows the movement in the liability for asset retirement obligations:

	2007	2006
Obligation, beginning of year	**$ 20,530**	$ 16,715
Revision in estimated amount of liabilities	**(8,003)**	2,577
Accretion expense	**1,338**	1,062
Foreign currency adjustments	**(346)**	176
Obligation, end of year	**$ 13,519**	$ 20,530

There were no liabilities settled during the years ended December 31, 2007 and 2006.

At December 31, 2007, $0.8 million is included in accounts payable and accrued liabilities for asset retirement obligations related to the retirement of property, plant and equipment in the conventional oil pipeline business (December 31, 2006 – $0.8 million).

13. ENVIRONMENTAL LIABILITIES

	2007	2006
Balance, beginning of year	**$ 10,259**	$ 5,025
Acquisition (note 4)	**–**	2,903
Additions	**2,000**	946
Foreign currency translation adjustments and other	**(1,336)**	1,385
Balance, end of year	**$ 10,923**	$ 10,259

14. PENSION LIABILITIES

Inter Pipeline acquired Simon Storage through an acquisition that was completed on October 4, 2005 and TLG through an acquisition that was completed on January 1, 2006 (note 4). At the time of acquisitions, the full amounts of the pension plan liabilities were recognized on Inter Pipeline's balance sheet and there were no unrecognized gains or losses.

United Kingdom

Inter Pipeline operates a defined benefit funded pension plan, the Simon Storage Pension Fund (Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2007. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Ireland

Inter Pipeline operates a defined benefit funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (Scheme) which provides benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2007. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at October 15, 2007 by professionally qualified actuaries. The results of the valuation were adjusted for Inter Pipeline's financial reporting purposes, with the obligation measured using the projected benefit method.

Both the Fund and the Scheme will have the valuations updated in 2010. The German arrangements are valued annually.

The actual distribution of the respective pension plan assets at market value as of December 31 is as follows. Assets are shown at mid market value:

Pension Plan Assets by Asset Category

	United Kingdom		Ireland		Germany	
	2007	2006	**2007**	2006	**2007**	2006
Equity securities	**49%**	52%	**–**	–	**–**	–
Debt securities	**29%**	25%	**–**	–	**–**	–
Real estate	**9%**	20%	**–**	–	**–**	–
Cash	**13%**	3%	**–**	–	**–**	–
Deferred annuity contract	**–**	-	**100%**	100%	**–**	–
Total	**100%**	100%	**100%**	100%	**–**	–

The significant actuarial assumptions adopted in measuring Inter Pipeline's accrued benefit obligations as of December 31 are as follows:

Weighted-Average Assumptions for Expense

	United Kingdom		Ireland		Germany	
	2007	2006	**2007**	2006	**2007**	2006
Discount rate	**5.2%**	4.8%	**4.5%**	4.2%	**4.5%**	4.2%
Rate of price inflation	**2.9%**	2.7%	**2.0%**	2.0%	**2.2%**	2.2%
Rate of compensation increase	**4.4%**	4.2%	**4.0%**	4.0%	**n/a**	n/a
Rate of increase to pensions in payment	**2.9%**	2.6%	**2.8%**	3.0%	**1.5%**	1.5%
Expected long-term rate of return on pension plan assets	**6.5%**	6.3%	**4.5%**	5.5%	**n/a**	n/a
Expected average remaining service life	**14 years**	14 years	**16 years**	16 years	**15 years**	15 years

Net pension expense attributable to the respective pension plans for the years ended December 31 includes the following components:

Components of Net Periodic Pension Cost

	2007				2006			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Current service cost for benefits earned	**$ 3,161**	**$ 87**	**$ 13**	**$ 3,261**	$ 2,609	$ 58	$ 16	$ 2,683
Interest cost on benefit obligations	**3,687**	**62**	**56**	**3,805**	3,118	63	48	3,229
Actual return on pension plan assets	**(3,722)**	**(68)**	**–**	**(3,790)**	(6,161)	(57)	–	(6,218)
Actuarial (gain) loss on accrued benefit obligation	**(3,279)**	**(115)**	**(90)**	**(3,484)**	407	(275)	(10)	122
Costs arising in the period	**(153)**	**(34)**	**(21)**	**(208)**	(27)	(211)	54	(184)
Differences between costs arising in the period and costs recognized in the period in respect of:								
· Return on pension plan assets	**(832)**	**7**	**–**	**(825)**	2,331	(7)	–	2,324
· Actuarial gain (loss)	**3,279**	**106**	**90**	**3,475**	(407)	275	10	(122)
· Past service cost	**11**	**–**	**–**	**11**	–	–	–	–
Net periodic pension cost recognized	**$ 2,305**	**$ 79**	**$ 69**	**$ 2,453**	$ 1,897	$ 57	$ 64	$ 2,018

The following tables set forth the respective pension plans' funded status and amount included in the accrued liability on Inter Pipeline's balance sheet at December 31.

Change in Accrued Benefit Obligation

	2007				2006			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	**$ 75,873**	**$ 1,403**	**$ 1,666**	**$ 78,942**	$ 61,432	$ 1,437	$ –	$ 62,869
Accrued benefit obligation acquired	**–**	**–**	**–**	**–**	–	–	1,503	1,503
Current and past service cost	**3,161**	**87**	**13**	**3,261**	2,751	58	16	2,825
Employee contributions	**808**	**–**	**–**	**808**	712	–	–	712
Interest cost	**3,687**	**62**	**56**	**3,805**	3,118	63	48	3,229
Benefits paid	**(2,507)**	**(210)**	**(66)**	**(2,783)**	(1,596)	(30)	(62)	(1,688)
Actuarial (gain) loss	**(3,279)**	**(115)**	**(90)**	**(3,484)**	407	(275)	(10)	122
Foreign currency adjustments	**(10,882)**	**(81)**	**(99)**	**(11,062)**	9,049	150	171	9,370
Accrued benefit obligation, end of year	**$ 66,861**	**$ 1,146**	**$ 1,480**	**$ 69,487**	$ 75,873	$ 1,403	$ 1,666	$ 78,942

Change in Pension Plan Assets

	2007				2006			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	**$ 73,993**	**$ 1,401**	**$ –**	**$ 75,394**	$ 57,660	$ 1,084	$ –	$ 58,744
Actual return on pension plan assets	**3,722**	**68**	**–**	**3,790**	6,161	57	–	6,218
Employer contributions	**2,477**	**138**	**66**	**2,681**	2,327	152	62	2,541
Employee contributions	**808**	**–**	**–**	**808**	712	–	–	712
Benefits paid	**(2,507)**	**(210)**	**(66)**	**(2,783)**	(1,596)	(30)	(62)	(1,688)
Foreign currency adjustments	**(10,848)**	**(84)**	**–**	**(10,932)**	8,729	138	–	8,867
Fair value of pension plan assets, end of year	**$ 67,645**	**$ 1,313**	**$ –**	**$ 68,958**	$ 73,993	$ 1,401	$ –	$ 75,394

As at December 31, 2007 the Fund included a nominal amount of assets representing benefits provided on a defined contribution basis (December 31, 2006 – $0.6 million). This amount is included in the accrued benefit obligation and the fair value of plan assets figures shown above.

Reconciliation of Funded Status to Accrued Benefit Liability

	2007				2006			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Funded status – Excess (deficit) at end of year	**$ 784**	**$ 167**	**$ (1,480)**	**$ (529)**	$ (1,880)	$ (2)	$ (1,666)	$ (3,548)
Unamortized past service cost	**135**	**–**	**–**	**135**	142	–	–	142
Unamortized net actuarial (gain) loss	**(2,211)**	**(389)**	**(100)**	**(2,700)**	230	(268)	(10)	(48)
Foreign currency adjustments	**184**	**7**	**–**	**191**	33	(21)	–	12
Accrued benefit liability	**$ (1,108)**	**$ (215)**	**$ (1,580)**	**$ (2,903)**	$ (1,475)	$ (291)	$ (1,676)	$ (3,442)

The unamortized past service cost in the Fund reflects an augmentation granted in 2006. This will be recognized over future periods.

Unamortized net actuarial gains or losses are recognized, to the extent that they exceed 10% of the greater of the accrued benefit obligation and the fair value of pension plan assets, over the average remaining service period of active members.

15. INCOME TAXES

In June 2007, the Government of Canada substantively enacted new legislation imposing additional income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline, effective January 1, 2011. Prior to June 2007, Inter Pipeline estimated the future income tax on certain temporary differences between amounts recorded on its consolidated balance sheets for book and tax purposes at a nil effective tax rate, related to the consolidated entities that were not corporations. Under the legislation, Inter Pipeline estimated in the second quarter of 2007 that the effective tax rate on the post 2010 reversal of the

temporary differences would be 31.5%. This is comprised of the federal general rate of 18.5% and a provincial SIFT factor of 13.0%. Temporary differences reversing before 2011 still give rise to nil future income taxes. Based on its consolidated assets and liabilities as at June 30, 2007, Inter Pipeline estimated the amount of its temporary differences and the prospective periods in which these differences will reverse. Inter Pipeline estimates that $774.1 million of net taxable temporary differences, not previously subject to income tax, will reverse after January 1, 2011, resulting in the recognition of an additional $243.8 million future income tax liability. The taxable temporary differences relate principally to the excess of net book value of property, plant and equipment and intangible assets over the remaining tax values attributable thereto.

On October 30, 2007, the Government of Canada announced further reductions to the federal general rate that was enacted into law in December 2007. This legislation reduced the federal general rate from 18.5% to 16.5% and 15.0% effective January 1, 2011 and January 1, 2012, respectively, which reduced Inter Pipeline's estimated effective tax rate to 29.5% and 28.0% in the respective periods. As a result of this rate reduction, future tax liabilities of non-corporate entities were reduced by $26.4 million.

While Inter Pipeline is currently subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change again in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability.

Corridor is a taxable Canadian corporation, thus its profits are subject to corporate tax. Corridor's combined federal and provincial effective tax rate of 32.12% for 2007 is a combination of the 22.12% federal general rate and 10% Alberta provincial rate. As noted above, the Government of Canada's reductions to the federal general rate will also reduce Corridor's effective tax rate to 25.0% effective January 1, 2012. As a result of this tax rate reduction, Corridor's estimated future tax liabilities were reduced by $6.9 million.

In the bulk liquid storage business segment, recent tax legislative changes in Europe also impacted future income taxes. In Germany, tax legislation passed which aligns German income tax rates more closely with the other European Union members, reducing the effective income tax rate from 39.00% to 30.35%, effective January 1, 2008. The effect of recognizing this change in German income tax rates was a $4.5 million reduction in future income tax liabilities. Similarly, in the United Kingdom, recent legislative changes will result in income tax rates declining from 30.0% to 28.0% effective April 1, 2008. The effect of recognizing this income tax rate change was a $3.8 million reduction in future income tax liabilities. Therefore, the overall impact of these reduced tax rates in the bulk liquid storage business was an $8.3 million decrease in the future income tax liabilities.

The components of income before income taxes are summarized below:

	2007	2006
Canada	**$ 100,669**	$ 104,880
Europe	**30,202**	29,985
	$ 130,871	$ 134,865

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before income taxes as shown in the following table:

	2007	2006
Income before income taxes per financial statements	**$ 130,871**	$ 134,865
Less: non taxable Canadian partnership income	**(92,773)**	(104,851)
Adjusted income before taxes	**38,098**	30,014
Tax rate	**32.12%**	32.50%
	12,237	9,755
Impact of new SIFT legislation	**243,834**	–
Future income taxes on temporary differences related to non-taxable Canadian partnership income	**1,092**	–
Impact of changes in tax rates	**(41,583)**	–
Deductible intercompany interest expense	**(4,660)**	(4,546)
Difference in Canadian and foreign tax rates	**(458)**	(595)
Other	**431**	(361)
Tax expense	**$ 210,893**	$ 4,253

The provision for income taxes is summarized as follows:

	2007	2006
Current		
Canada	**$ 34**	$ –
Europe	**2,556**	1,479
	2,590	1,479
Future		
Canada	**214,562**	173
Europe	**(6,259)**	2,601
	208,303	2,774
Tax expense	**$ 210,893**	$ 4,253

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2007 is approximately $1.3 million (December 31, 2006 – $3.0 million).

The tax effects of deductible temporary differences that give rise to future tax amounts are as follows:

	2007	2006
Difference between book values and tax values of:		
Property, plant and equipment	**$ 212,296**	$ 78,558
Intangible assets	**123,599**	6,680
Working capital	**1,208**	2,228
Asset retirement obligations	**(5,753)**	–
Risk management liability	**(213)**	–
Cold Lake Pipeline Ltd.'s investment in Cold Lake LP	**–**	1,528
Tax losses in Cold Lake Pipeline Ltd.	**–**	(155)
	$ 331,137	$ 88,839

Current income taxes payable of $0.7 million (2006 – $1.9 million) are included in accounts payable.

16. PARTNERS' EQUITY

Units issued and outstanding

Authorized

Unlimited number of Class A limited liability units

Unlimited number of Class B unlimited liability units

Issued and Outstanding

	Class A Units	Class B Units	Total
Balance as at December 31, 2005	184,407,576	184,855	184,592,431
Issuance of units (b)	15,000,000	15,016	15,015,016
Issued on conversion of Debentures	733,479	677	734,156
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (c)	665,714	474	666,188
Issued under Unit Incentive Option Plan (note 17)	719,839	732	720,571
Balance as at December 31, 2006	201,526,608	201,754	201,728,362
Issuance of units (a)	15,310,000	15,326	15,325,326
Issued on conversion of Debentures	1,842,977	1,881	1,844,858
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (c)	1,092,515	1,106	1,093,621
Issued under Unit Incentive Option Plan (note 17)	887,022	950	887,972
Balance as at December 31, 2007	220,659,122	221,017	220,880,139

a) Issuance of units

On December 20, 2007, Inter Pipeline issued 15.3 million Class A units at $9.80 per Class A unit. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 15,326 Class B units at a price of $9.80 per Class B unit. The net proceeds of $143.0 million, net of issuance costs of $7.1 million, were applied to reduce the outstanding debt.

b) Issuance of units

On January 31, 2006, Inter Pipeline issued 15.0 million Class A units at $10.00 per Class A unit. The net proceeds of $142.2 million, net of issuance costs, were applied to reduce the outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 15,016 Class B units at a price of $10.00 per Class B unit.

c) Reinvestment and Optional Unit Purchase Plan

Pursuant to the Distribution Reinvestment and Optional Unit Purchase Plan (Plan), unitholders may elect to receive Class A units instead of cash for payment of their distribution and/or purchase additional units, at a price representing a 5% discount to the weighted-average closing trading price for the 10 trading days immediately preceding the distribution date.

Calculation of Net (Loss) Income per Partnership unit

Partnership units share equally on a pro rata basis in the allocation of net income. The number of diluted units outstanding is calculated using the Treasury Stock method based on the weighted-average number of units outstanding for the year as follows:

	2007	2006
Net (loss) income attributable to unitholders – Basic	**$ (80,022)**	$ 130,612
Interest on Debentures *	**–**	1,358
Net (loss) income attributable to unitholders – Diluted	**$ (80,022)**	$ 131,970
Weighted-average units outstanding – Basic	**203,361,690**	199,565,372
Effect of debenture conversions *	**–**	2,266,787
Effect of unit options	**817,651**	1,267,261
Weighted-average units outstanding – Diluted	**204,179,341**	203,099,420
Net (loss) income per Partnership unit – Basic and Diluted	**$ (0.39)**	$ 0.65

* The debentures have an anti-dilutive impact for the year ended December 31, 2007; therefore, they are not included in the calculation of diluted net income per Partnership unit.

17. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS

In 2003, the Board of Directors of the General Partner established an Option Plan whereby 7,312,680 Class A units have been reserved for issuance under the Option Plan. Options to purchase Class A units are granted to directors, officers, employees and consultants of the General Partner. The exercise price of the options is equal to the current market price at the date of grant, subject to an incentive reduction. The options have a five-year term with one-third of the options vesting immediately on the date of grant and one-third on each of the first and second anniversary dates thereafter.

The Option Plan provides for an incentive reduction in the exercise price of the options by the amount by which Inter Pipeline's total return per unit in each calendar year exceeds a prescribed threshold return for such calendar year. The threshold return is determined annually and is equal to 350 basis points over the 10-year Government of Canada bond rate multiplied by the closing price of the units on the Toronto Stock Exchange (TSX) at the beginning of the year. The total return is the sum of the difference between the closing price of the units on the TSX at the end of the year or on the date of exercise, and the exercise price on the grant date, plus the cumulative dollar amount of distributions per unit declared during the year.

Effective January 1, 2006, Inter Pipeline implemented a new LTIP for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) (formerly the Unit Appreciation Rights Plan) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR) (formerly a Unit Appreciation Right), as granted under the DURP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest as to one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes.

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at December 31, 2007 and 2006, and changes during the years then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2005	3,046,601	$ 7.37	$ 4.65	–
Granted	–	$ –	$ –	1,069,228
Exercised	(719,839)	$ 6.69	$ 3.19	–
Cancelled	(73,504)	$ 8.08	$ 6.36	(22,000)
Balance outstanding, December 31, 2006	2,253,258	$ 7.56	$ 5.06	1,047,228
Granted	–	$ –	$ –	106,728
Exercised	(887,022)	$ 6.50	$ 2.15	(53,563)
Cancelled	(13,000)	$ 10.22	$ 9.52	(70,464)
Balance outstanding, December 31, 2007	1,353,236	$ 8.23	$ 5.99	1,029,929

* The weighted-average exercise price based on the exercise price on the date of grant.

** The weighted-average exercise price adjusted for the incentive reduction to December 31, 2007.

The following table summarizes information about unit options outstanding at December 31, 2007:

	Options Outstanding and Exercisable		
Range of adjusted exercise prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price*
$1.44 – $4.71	638,236	1.0 years	$3.79
$7.33 – $9.92	715,000	2.1 years	$7.96
Total	1,353,236	1.6 years	$5.99

* The weighted-average exercise prices shown for options outstanding and exercisable at the end of the year are adjusted for the incentive reduction.

No options were granted in 2007 or 2006, while a nominal amount of expense was recorded in 2007 for vested 2005 grants. (2006 – $0.2 million)

18. DEPRECIATION AND AMORTIZATION

	2007	2006
Depreciation of facilities and equipment	**$ 66,529**	$ 54,116
Depreciation of Corridor linefill	**961**	–
Amortization of deferred receipt facilities expenditures	**284**	642
Amortization of intangible assets	**14,164**	14,145
Loss (gain) on disposal of property, plant and equipment	**3,860**	(19)
Accretion of asset retirement obligation	**1,338**	1,062
Total depreciation and amortization	**$ 87,136**	$ 69,946

19. FINANCING CHARGES

	2007	2006
Interest expense on credit facilities	$ 40,713	$ 15,235
Interest on Loan Payable to General Partner	23,084	23,084
Interest on Corridor Debentures	8,493	–
Interest on Debentures	1,011	1,358
	73,301	39,677
Capitalized interest	(12,041)	–
Amortization of transaction costs on long-term debt	680	–
Amortization of deferred financing charges	–	212
Total financing charges	$ 61,940	$ 39,889

During 2007, Inter Pipeline incurred $40.7 million of interest expense on credit facilities (2006 - $15.2 million), including $38.7 million in respect of interest costs on utilized amounts (2006 - $13.8 million), $0.8 million in cash settlements on the interest rate swaps (2006 – $1.1 million), and $1.2 million in respect of fees on undrawn amounts (2006 – $0.3 million). The average interest rate on credit facilities for the year equated to 4.76% on average borrowings of $831.4 million (2006 – 4.77% on $299.3 million).

20. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the years ended December 31, 2007 and 2006.

In 2002, Inter Pipeline entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts were paid in 2007 and 2006 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 11). At December 31, 2007, $0.8 million was owed to the General Partner by Inter Pipeline (December 31, 2006 – $0.4 million).

Management fees of $6.6 million were earned by the General Partner in the year ended December 31, 2007 (2006 – $5.1 million). Acquisition fees of $10.9 million were earned by the General Partner in 2007 (2006 – $0.4 million).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million (note 11). At December 31, 2007, interest payable to the General Partner on the loan was $4.1 million (2006 – $4.1 million). The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2006 – $0.2 million) on a net basis, after paying interest expense to the ultimate note holders.

In 2007, certain of the officers and directors of the General Partner received a total of $2.1 million in dividends from PAC pursuant to their non-voting shares (2006 – $0.7 million).

All transactions and balances with related parties are established and agreed to by the various parties and approximate the exchange amount.

21. COMMITMENTS

On June 15, 2007, Inter Pipeline Fund entered into an agreement with the shippers to guarantee the payment and performance of all obligations, other than repayment of borrowed amounts or similar financial obligations, of Corridor, the General Partner, or the operator (if the operator was not Inter Pipeline) in favour of the shippers under the FSA and other related agreements. The guarantee may be exercised in the event that Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason.

With respect to the Corridor Expansion, Inter Pipeline has committed to additional capital expenditures totaling approximately $1.181 million at December 31, 2007.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage and property to 2038. The future minimum annual lease payments for these lease commitments are:

2008	$ 6,701
2009	5,883
2010	6,079
2011	5,642
2012	5,321
Thereafter	53,565
	$ 83,191

22. RISK MANAGEMENT

Financial Instruments

Financial instruments of Inter Pipeline consist of cash, the majority of accounts receivable, derivative financial instruments, long-term receivable, cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, Debentures and long-term debt.

Fair Values

At December 31, 2007, the carrying values of cash, the majority of accounts receivable, long-term receivable, cash distributions payable, the majority of accounts payable and accrued liabilities, and certain components of deferred revenue approximate their fair value due to the relatively short-term maturity of these financial instruments. On account of the short-term nature of financial instruments drawn on long-term debt facilities with variable interest rates, it is assumed that the carrying amounts of these financial instruments are virtually the same as their fair values.

At December 31, 2007, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value *	Fair Value
Loan Payable to General Partner	$ 379,800	$ 386,161
Corridor Debentures	$ 300,000	$ 295,910

* Carrying values exclude transaction costs and accumulated amortization.

The estimated fair value of the fixed rate debt has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The actual amounts realized may differ from these estimates.

The estimated fair values of derivative financial instruments are disclosed in the ***Derivative Financial Instruments*** section below.

Derivative Financial Instruments

As discussed in note 1, concurrent with the adoption of CICA Handbook section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Inter Pipeline has recognized assets or liabilities for derivative contracts outstanding at December 31, 2007 and has recorded the change in fair value for 2007 in income.

Fair Values of Outstanding Derivative Financial Instruments

The fair values of derivative financial instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding as at December 31, 2007 with reference to actively quoted forward prices, internal valuation models, and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are not actively traded on a standardized exchange. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place.

The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities in 2007:

	2007	2006
Fair value of derivative financial instruments, beginning of year	**$ –**	$ –
Fair value recognized on adoption of new accounting standards (note 1)	**(7,971)**	–
Change in fair value of contracts in place at the beginning of year and settled during the year	**5,198**	–
Fair value of contracts entered into during the year	**(30,021)**	–
Changes in values attributable to market price and other market changes	**197**	–
Fair value of derivative financial instruments, end of year	**$ (32,597)**	$ –

At December 31, 2007, the fair values of derivative financial instruments used for risk management activities are recorded in the consolidated balance sheets as follows:

	2007	2006
Current asset	**$ 6,808**	$ –
Long-term asset	**–**	–
Current liability	**(34,811)**	–
Long-term liability	**(4,594)**	–
	$ (32,597)	$ –

A summary of the estimated fair values of derivative financial instruments used for risk management activities is as follows:

	2007	2006*
Frac-spread risk management		
NGL swaps	**$ (26,217)**	$ 8,596
Natural gas swaps	**(7,837)**	(10,016)
Foreign exchange swaps	**6,357**	(3,829)
	(27,697)	(5,249)
Interest rate risk management		
Interest rate swaps	**(5,351)**	(4,041)
	(5,351)	(4,041)
Power price risk management		
Electricity price swaps	**451**	1,319
	451	1,319
	$ (32,597)	$ (7,971)

* Comparative amounts were not recognized on the consolidated balance sheets at December 31, 2006, as this was prior to the adoption of CICA Handbook sections 1530, 3855 and 3865 (note 1).

Realized and Unrealized Gain (Loss) on Risk Management Activities

The realized gains (losses) on derivative financial instruments used for risk management activities recognized in income were:

	2007	2006
Revenues		
NGL swaps	**$ (19,713)**	$ (4,334)
Foreign exchange swaps	**4,317**	744
	(15,396)	(3,590)
Shrinkage gas expense		
Natural gas swaps	**(14,645)**	(12,989)
	(14,645)	(12,989)
Operating expenses		
Electricity price swaps	**596**	1,371
Heat rate swaps	**(74)**	4,308
	522	5,679
Financing charges		
Interest rate swaps	**(1,697)**	(1,165)
	(1,697)	(1,165)
Net realized loss on derivative financial instruments	**$ (31,216)**	$ (12,065)

The unrealized change in fair value related to derivative financial instruments used for risk management activities recognized in income was:

	2007	2006*
Frac-spread risk management		
NGL swaps	**$ (34,813)**	$ –
Natural gas swaps	**2,179**	–
Foreign exchange swaps	**10,186**	–
	(22,448)	–
Interest rate risk management		
Interest rate swaps	**1,014**	–
	1,014	–
Power price risk management		
Electricity price swaps	**(868)**	–
	(868)	–
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	**(5,198)**	–
Unrealized change in fair value of derivative financial instruments	**$ (27,500)**	$ –

* No comparative amounts were included in net income in 2006, as this was prior to the adoption of CICA Handbook sections 1530, 3855 and 3865 (note 1).

Inter Pipeline estimates that a net loss of $0.3 million on derivatives previously designated as cash flow hedges will be transferred to net income in 2008.

Frac-Spread Risk Management

In August 2004, Inter Pipeline established a program to sell certain quantities of NGL products at fixed prices to third party counterparties and buy related quantities of natural gas at fixed prices from third party counterparties in order to manage commodity price (frac-spread) risk in its NGL extraction business. The NGL price swap agreements are calculated based on U.S. dollar prices. Therefore, Inter Pipeline has also entered into foreign exchange contracts to sell U.S. dollars in order to convert notional U.S. dollar amounts related to the NGL revenues.

Contracts outstanding at December 31, 2007 represent approximately 33% of forecast propane plus volumes at the Cochrane extraction plant for the period January to December 2008 at average prices of approximately $0.48 Cdn/US gallon. These average prices would approximate $0.48 US/US gallon based on the average US$/Cdn$ forward curve as at December 31, 2007. Contracts outstanding at December 31, 2007 are as follows:

Contract Period	January 1 to December 31, 2008	
NGL	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	1.091	3,246
Normal butane	1.264	559
Iso butane	1.297	346
Pentanes plus	1.671	277

	Average Price (Cdn$/GJ)	Average Quantity (GJ/day)
AECO natural gas	7.70	18,579

	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)
Foreign exchange	0.927	6,610

Contracts outstanding at December 31, 2006 represented approximately 45% of forecast propane plus volumes at the Cochrane extraction plant for the period January to December 2007 at average prices of approximately $0.41 Cdn/US gallon. These average prices approximated $0.35 US/US gallon based on the average US$/Cdn$ forward curve as at December 31, 2006. Contracts outstanding at December 31, 2006 were as follows:

Contract Period	January 1 to December 31, 2007	
NGL	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	1.000	4,247
Normal butane	1.156	734
Iso butane	1.169	454
Pentanes plus	1.693	363

	Average Price (Cdn$/GJ)	Average Quantity (GJ/day)
AECO natural gas	7.89	22,356

	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)
Foreign exchange	0.893	7,971

Interest Rate Risk Management

Inter Pipeline is exposed to interest rate risk arising from fluctuations in interest rates on a portion of cash, on the long-term receivable, on certain of its derivative financial instruments and on long-term debt.

Inter Pipeline has entered into a series of interest rate swap agreements with a Canadian chartered bank to manage its interest rate cash flow risk exposure on floating rate bank loans. At December 31, 2007, the swap agreements have a total notional value of $44 million (2006 – $45 million).

Maturity Date	Fixed Rate Per Annum (Excluding Applicable Margin)		Notional Balance
December 31, 2011	6.31%	$	15,000
December 30, 2011	6.30%*		29,000
		$	44,000

* The notional principal balance of this swap agreement is reduced by $1.0 million per year for the term of the arrangement.

As a result of the acquisition of Corridor (note 3), Inter Pipeline assumed two fixed-to-floating interest rate swap agreements:

Maturity Date	Fixed Rate Per Annum	Floating Rate Per Annum		Notional Balance
February 2, 2010	4.240%	CAD 3 month BA plus margin	$	150,000
February 2, 2015	5.033%	CAD 3 month BA plus margin		150,000
			$	300,000

Power Price Risk Management

Electricity Price Swap Contracts

Inter Pipeline has entered into a series of electricity price swap contracts to manage electricity price exposure in its conventional oil pipeline business. Contracts outstanding were as follows:

As at December 31, 2007 Contract Period	Average Price ($/MWh)	Quantity (MW)
January 1, 2008 – December 31, 2008	54.00	2.5

As at December 31, 2006 Contract Period	Average Price ($/MWh)	Quantity (MW)
January 1, 2007 – December 31, 2007	52.75	5.0
January 1, 2008 – December 31, 2008	54.00	2.5

Heat Rate Swap Contracts

Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. At December 31, 2007 and 2006, there were no heat rate swap contracts outstanding.

Credit Risk Management

Credit exposure on financial instruments arises from the possibility that a counterparty is unable to fulfill its obligations to Inter Pipeline. Inter Pipeline is exposed to credit risk with respect to its accounts receivable, derivative financial instruments and long-term receivable.

Concentrations of credit risk associated with accounts receivable relate to two of the principal customers of the NGL extraction business, Dow Chemical Canada and BP Canada, that account for 50% of accounts receivable at December 31, 2007. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

For derivative financial instruments, Inter Pipeline believes the risks of non-performance are minimal as the counterparties on the interest rate, NGL, natural gas and foreign exchange swaps are major financial institutions. The electricity price swaps are with investment grade counterparties.

Credit risk associated with the long-term receivable is minimized because the counterparties are investment grade.

23. SUPPLEMENTAL CASH FLOW INFORMATION

Restricted Cash

At December 31, 2006, cash included $1.7 million that was restricted as a customs bond for the Office of the Revenue Commissioners in Ireland. No similar amounts were restricted at December 31, 2007.

Changes in Non-Cash Working Capital

	2007	2006
Accounts receivable	**$ (25,270)**	$ (1,345)
Prepaid expense and other deposits	**(2,500)**	(261)
Cash distributions payable	**1,361**	2,123
Accounts payable and accrued liabilities	**57,800**	(8,033)
Deferred revenue	**(927)**	5,959
Working capital deficiency acquired on acquisitions	**(18,316)**	(1,264)
Impact of foreign exchange rate differences and other	**(595)**	(132)
Changes in non-cash working capital	**$ 11,553**	$ (2,953)
These changes relate to the following activities:		
Operating	**$ (12,834)**	$ (3,771)
Investing	**23,026**	(1,305)
Financing	**1,361**	2,123
Changes in non-cash working capital	**$ 11,553**	$ (2,953)

Other Cash Flow Information

	2007	2006
Cash taxes paid	**$ 3,844**	$ 549
Cash interest paid	**$ 73,661**	$ 40,339

24. MAJOR CUSTOMERS

In 2007, Dow Chemical Canada and BP Canada, two of the principal customers of the NGL extraction business, accounted for 56% (2006 – Dow Chemical Canada, NOVA Chemicals and BP Canada accounted for 68%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

25. 85% INTEREST IN COLD LAKE

Summarized information on the results of operations, financial position and cash flows relating to Inter Pipeline's 85% interest in Cold Lake LP and Cold Lake Pipeline Ltd. are:

	2007	2006
Revenues	**$ 62,518**	$ 58,823
Expenses	**(38,648)**	(37,372)
Recovery of (provision for) income taxes	**1,339**	(173)
Proportionate share of net income	**$ 25,209**	$ 21,278
Proportionate share of funds from operations	**$ 40,463**	$ 37,550
Cash provided by operating activities	**$ 37,378**	$ 43,052
Cash used in investing activities	**(29,289)**	(17,280)
Proportionate share of increase in cash and cash equivalents	**$ 8,089**	$ 25,772
Current assets	**$ 22,975**	$ 23,341
Long-term assets	**443,322**	430,526
Current liabilities	**(2,696)**	(2,159)
Long-term liabilities	**–**	(1,373)
Proportionate share of net assets	**$ 463,601**	$ 450,335

26. COMPARATIVE FIGURES

Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

FORWARD-LOOKING INFORMATION

This Annual Report contains certain forward-looking statements or forward-looking information (collectively referred to in this note as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the expectations, plans or intentions upon which they are based will occur. Inter Pipeline in no manner represents that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc., the general partner of Inter Pipeline (General Partner) at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements made. By their nature, forward-looking statements are subject to various risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and NGL extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; the ability to access sufficient capital from internal and external sources; product supply and demand; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the timing and costs of construction projects; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities.

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled **RISK FACTORS** in this MD&A and the section entitled **RISK FACTORS** included in Inter Pipeline's **ANNUAL INFORMATION FORM** (AIF), which can be reviewed at www.sedar.com

Except to the extent required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.

Board of Directors

JOHN F. DRISCOLL

Director and Chairman of the Board
Toronto, Ontario, Age: 66

Mr. Driscoll is the founder and President of JF Driscoll Investment Corp., a company specializing in investment management and related advisory and consulting services. During the last 20 years, issuers of which Mr. Driscoll was Chairman or Chief Executive Officer have invested, or managed the investment of, more than $12.4 billion. Mr. Driscoll received his Bachelor of Science degree from the Boston College Business School and attended the New York Institute of Finance for advanced business studies. He is a member of the CFA Institute and also attained the professional manager designation with the Canadian Institute of Management.

H. (BERT) ALFARO(1)

Director, Chair of the Governance Committee,
Member of the EH&S and Compensation Committees
Calgary, Alberta, Age: 76

Mr. Alfaro is a registered professional engineer (APEGGA). Prior to October 1991, he was employed by Home Company Limited for over 38 years, holding a variety of senior positions, including, lastly, Director and Vice-President of Production. Mr. Alfaro has also held senior management positions as President and as a director of Federated Pipe Lines Ltd. From 1993 to 2005, he was President of H. Alfaro & Associates Ltd., a petroleum consulting company.

NICHOLAS O. BRIGSTOCKE

Director
Midhurst, West Sussex, United Kingdom, Age: 65

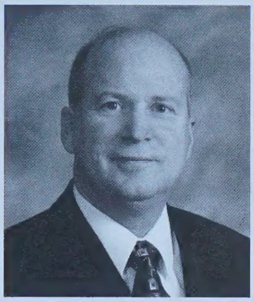
Mr. Brigstocke has had a distinguished international career in the investment sector, including tenure at the brokerage firm of de Zoete and Bevan, which was later acquired by Barclays. He was appointed Chairman of Barclays de Zoete Wedd's, which was acquired by Credit Suisse First Boston. Mr. Brigstocke served as Chairman of Credit Suisse First Boston UK equity capital markets until 2001, following which he acted as a Senior Consultant with Bridgewell Corporate Finance Ltd. until 2004. Mr. Brigstocke currently serves as a non-executive director for a number of private and publicly traded companies.

LORNE E. BROWN(1)

Director, Member of the Audit and EH&S Committee
Oro Valley, Arizona, Age: 65

Mr. Brown has over 35 years of experience in the areas of energy transportation, refining, marketing and business development. Mr. Brown served as Vice President, Raw Material Supply at CHS Inc. until his retirement from that position in 2007. His tenure at CHS Inc. included commodity trading related to refinery feedstock requirements and the supply and marketing of product streams, transportation agreements for raw material supply on pipelines, development of key customer relationships and long-range strategic plans.

(1) Independent Director



JEFFERY E. ERRICO

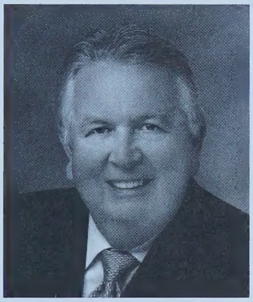
Director
Calgary, Alberta, Age: 57

Mr. Errico is a Professional Engineer with a Bachelor of Applied Science Degree in Chemical Engineering from the University of British Columbia. Currently, Mr. Errico is the Executive Chairman of Insignia Energy Inc., a private energy company. During his career, Mr. Errico gained extensive experience in the area of economic evaluations, reservoir and operations engineering, having served as a senior executive for several oil and gas companies. Mr. Errico has over 30 years experience in the oil and gas industry.

DAVID W. FESYK

Director, President and Chief Executive Officer
Calgary, Alberta, Age: 45

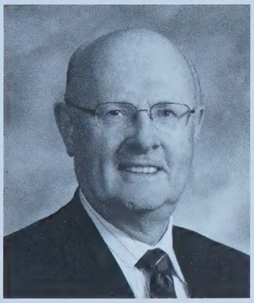
Mr. Fesyk has served as President and CEO of the General Partner since its inception. Previous to that he was employed by various affiliates of Koch Industries, Inc. During his tenure at Koch, he held several senior executive positions including Vice President, Transportation, Koch Petroleum Canada, LP, President, Koch Canada Ltd., and President and CEO, Koch Pipelines Canada Ltd. Mr. Fesyk holds a Bachelor of Science degree from Arizona State University and a Master of Business Administration degree from the University of Calgary.



DUANE E. KEINICK(1)

Director, Chair of the Compensation Committee, Member of the Governance Committee
Calgary, Alberta, Age: 61

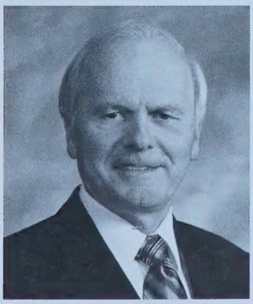
Mr. Keinick has had a distinguished career at Canadian Imperial Bank of Commerce, spanning 39 years. Mr. Keinick joined the oil and gas group in 1982 as Vice President, Corporate Credit, later advancing to Senior Vice President, Corporate Credit. In 1998, Mr. Keinick was appointed as Senior Vice President and Managing Director of CIBC World Markets Inc. where he advised on major oil and gas transactions before retiring in 2005. Mr. Keinick holds a Bachelor of Arts degree from the University of Calgary.



J. LINDSAY MILNE(1)

Director, Chair of the EH&S Committee, Member of the Governance and Audit Committees
Calgary, Alberta, Age: 70

Mr. Milne is an independent businessman with more than 40 years of experience in the oil and gas industry. Mr. Milne served as President of Canadian Delta Exploration Ltd., as Senior Vice President – Operations of Bow Valley Energy Inc., and as Senior Vice President – Exploration and Production, Western Canada at Husky Oil Operations Ltd. He has also served as a director of Peace Pipelines Ltd. and Rainbow Pipelines Ltd. Mr. Milne graduated with a Bachelor of Science in Geological Engineering from the University of Saskatchewan.



WILLIAM D. ROBERTSON(1)

Lead Independent Director, Chair of the Audit Committee, Member of the Compensation and Governance Committees
Calgary, Alberta, Age: 63

Mr. Robertson is a Fellow Chartered Accountant and was formerly the lead oil and gas specialist at Price Waterhouse and PriceWaterhouseCoopers in Calgary. After enjoying a 36-year career with the firm, Mr. Robertson retired from practice in 2002. Prior to this, he served on the CIM Petroleum Society Standing Committee on Reserve Definitions, as well as a number of other committees overseeing the practice of accounting in Alberta. Mr. Robertson graduated with a Bachelor of Commerce degree from the University of Alberta.

"The board would like to thank Bernie Bradley for his many contributions while serving as a director. Mr. Bradley resigned effective February 6, 2008."

Officers

DAVID W. FESYK
President and Chief Executive Officer

WILLIAM A. VAN YZERLOO
Chief Financial Officer

S. JIM ARSENYCH
Vice President, Legal

CHRISTIAN P. BAYLE
Vice President, Corporate Development

ANITA DUSEVIC OLIVA
Legal Counsel & Corporate Secretary

SCOTT D. GERLA
Vice President, Financial Reporting & Compliance

JEFFREY D. MARCHANT
Vice President, Oil Sands Development

PAUL J. MURPHY
Vice President, NGL Extraction

JEREMY A. ROBERGE
Vice President, Capital Markets

DAVID WILLIAMS
Vice President, Operations

Head Office

2600, 237–4th Avenue SW
Calgary, Alberta, Canada T2P 4K3
Telephone: (403) 290-6000
Toll Free: 1-866-716-PIPE (7473)

Email: investorrelations@interpipelinefund.com
Website: www.interpipelinefund.com

Registrar and Transfer Agent

Computershare Trust Company of Canada
600, 530–8th Avenue SW
Calgary, Alberta, Canada T2P 3S8
Telephone: 1-800-564-6253
Facsimile: 1-888-453-0330

Email: service@computershare.com

Auditors

Ernst & Young LLP
Chartered Accountants
1000, 440–2nd Avenue SW
Calgary, Alberta, Canada T2P 5E9

Stock Exchange Listing

The Toronto Stock Exchange
Class A units trade under the symbol IPL.UN

Investor Relations

Jeremy A. Roberge
Vice President, Capital Markets
Telephone: (403) 290-6015

Email: jroberge@interpipelinefund.com

Media Relations

Michelle Dawson
Director, Public & Regulatory Affairs
Telephone: (403) 290-2643

Email: mdawson@interpipelinefund.com

ABBREVIATIONS AND UNITS OF MEASURE

Abbreviations

b/d	barrels per day
GJ	gigajoules
km	kilometres
mmcf/d	million cubic feet per day
MW	megawatts
MWh	megawatt hour
NGL	natural gas liquids

Definitions

EBITDA
Net income plus depreciation and amortization, financing charges, non-cash operating expense, non-cash general and administrative expense, unrealized change in fair value of derivative financial instruments, acquisition fees, future income taxes and current income taxes.

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inter pipeline

2600, 237– 4th Avenue SW
Calgary, Alberta, Canada T2P 4K3
Telephone: (403) 290-6000
Toll Free: 1-866-716-PIPE (7473)

www.interpipelinefund.com